Austria	Sch30	Indonesia	Rp3100	Pakistan	Rs35
Bahrain	Din0.800	Iran	Rls210	Philippines	Pso40
Belgium	BFr60	Israel	Shk4.50	Poland	Zl 15,000
Cyprus	C£1.00	Italy	L2200	Portugal	Es175
Czech	Kcs35	Jordan	JD1.20	Qatar	QR10.00
Denmark	DKr13	Korea	Won 2000	S.Arabia	SR8.00
Egypt	E£3.50	Kuwait	Fils.500	Singapore	S$4.10
Finland	FM10	Lebanon	L£1,000	Spain	Pta175
France	FFr8.00	Lux	LFr60	Sweden	SKr13
Germany	DM3.00	Morocco	MDh16	Switz	SFr2.70
Greece	Dr250	Neth	Fl 3.50	Thailand	Bht50
Hungary	Ft162	Nigeria	Naira15	Tunisia	Din0.800
Iceland	IKr160	Norway	NKr13.00	Turkey	L5000
India	Rs20	Oman	OR1.20	UAE	Dh8.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

FT No. 31,637

Wednesday December 18 1991

Φ D 8523A

YUGOSLAVIA

Bonn's ambitions sink in EC fudge

Page 3

World News

US hails EC compromise on Yugoslav republics

The European Community's compromise on the recognition of Yugoslav republics is unlikely to settle differences over the speed of the recognition process.

The US welcomed the EC's decision to postpone until January 15 diplomatic recognition of Croatia and Slovenia as independent republics, saying this would allow more time to find a political settlement. However, Chancellor Helmut Kohl said Germany would press ahead immediately to grant the republics recognition. Page 14; Editorial comment, Page 12; A curious role reversal, Page 13

German unity pledge

Germany's ruling Christian Democratic Union agreed a manifesto which makes the forging of unity between the two halves of Germany the priority. Page 2

Polish PM gives up

Polish prime minister Jan Olszewski, a former Solidarity lawyer, gave up his attempt to form a government, saying President Lech Walesa refused to co-operate with him. Page 2

Food convoys attacked

Starving Ethiopians are attacking relief convoys, forcing delays in delivering food to the famine-hit eastern region, the main United Nations refugee organisation said.

Gadaffi's Lockerbie view

Libyan leader Muammer Gadaffi said bad weather caused the 1988 airliner disaster at Lockerbie, Scotland, which killed 270 people – not a Libyan bomb as claimed by the US and Britain. He said the aircraft exploded on the ground after it ploughed through a petrol station.

Nurses compensated

Two British military nurses sacked after becoming pregnant won a sex discrimination case against the government and were awarded a total of £25,000 ($45,000) in compensation by the London High Court. Page 8

Rainbow Warrior move

New Zealand agreed not to demand the extradition of a French spy accused of helping bomb the Greenpeace ship Rainbow Warrior in 1985. The French Foreign Ministry said the affair was now closed. Page 4

Hawke under pressure

Australian prime minister Bob Hawke came under more pressure to resign when an opinion poll showed a further sharp fall in his popularity among recession-weary voters.

Trinidad's new leader

Patrick Manning, a 45-year-old geologist, became prime minister of Trinidad and Tobago after an emphatic victory by his People's National Movement party in general elections. Page 6

Split on Zionism repeal

Israel welcomed repeal by the United Nations General Assembly of a 1975 resolution equating Zionism with racism, but a number of Arab countries protested at the move. Page 4

New territory

Canada's federal government and leaders of the aboriginal Inuit people have agreed to create the semi-autonomous Nunavut Territory. It will comprise most of northern Canada and the Arctic islands. Page 6

Politicians in jail

Several Greenland politicians spent the night in police cells in the capital, Nuuk, after their parliamentary Christmas party – the only occasion in the year when alcohol is allowed in the parliament building – got too festive.

Business Summary

French group set to control Italian water brands

Leading French foods group BSN yesterday announced that it was poised to take full control of four Italian mineral water brands – a move that will make it Italy's biggest mineral water supplier.

The acquisition from Ifil, an Agnelli family holding company, signals a new shake-up in the European mineral water industry. Page 15

EUROPEAN COMMISSION is expected to start investigating nearly DM2bn ($1.2bn) worth of German state aid to help Opel, Volkswagen and Mercedes-Benz create car-making capacity in the country's five new eastern länder. Page 2

SG WARBURG, the British government's lead adviser in the BT sale, has been buying back partly paid BT shares to stabilise the price. Page 15

US-CHINA TRADE: China has been told that negotiations with the US over intellectual property rights protection must be concluded by January 16 or Washington is ready to impose sanctions. Page 6

MITSUBISHI OIL's plan to take a rescue stake in struggling Japanese oil refiner Fuji Kosan was clouded by a Tokyo Stock Exchange investigation into the trading of Fuji Kosan shares. Page 17

A&P supermarket chain of the US, which is 53 per cent owned by Germany's Tengelmann Group, reported third-quarter net profits down to $3.92m from $32m for the same period a year earlier. Page 17

BRITAIN's public sector finances recorded a surprisingly low deficit last month of about £400m ($728m), raising hopes that the government might be able to hold its 1991-92 borrowing requirement at the £10.5bn forecast last month. Page 7; Lex, Page 14

AFRICAN TV: South Africa's Electronic Media Network is set to sign a deal with Kenya Television Network on a partnership to run a subscriber-only satellite TV station from Nairobi, KTN said. Page 4

THYSSEN, German industrial and trading group, suffered its third annual profits fall running as low demand and prices hit its steel and engineering interests. Net profits for the year to end September fell to DM520m ($329m) from DM690m last time and DM825m in 1988-89. Page 15

LASMO of the UK, which is bidding £1.2bn ($2.2bn) for fellow oil and gas group Ultramar, bought 3.55 per cent of Ultramar's shares at £3 each. Results of the takeover offer will be disclosed later today. Page 16

NORWICH UNION, UK life assurance group, announced it was cutting payouts to policyholders by about 9 per cent. Other UK life companies can be expected to follow NU's lead when they announce bonuses next month. Page 15; Lex, Page 14

PLATINUM plunged by $7.75 a troy ounce in London to close at $348.65. The fall was triggered by Japanese investors cutting their losses on Tokyo Commodity Exchange futures contracts. Page 22

NEW ZEALAND scrapped plans to balance the budget in three years because of weaker-than-expected economic growth, lower tax returns and changed social costs. Finance minister Ruth Richardson said the 1991-92 budget deficit would be NZ$2.7bn – NZ$1bn more than forecast. Page 4

BRITISH GAS signed a deal with Tunisia to develop at 30bn cubic meter gas field off the south-eastern port of Sfax at at cost of $630m. Page 5

President's popularity hits new low as economic outlook worsens

US says recession continuing

By Lionel Barber and Michael Prowse in Washington

THE US economy is still in recession, the White House said yesterday, abandoning previous claims that the recovery had merely stalled.

Its statement came after a new poll showed that Mr George Bush's popularity has dropped to the lowest level of his presidency. It heightened expectations of a half percentage point cut in the Federal Reserve's discount rate, currently 4.5 per cent.

Mr Bush's rating has slipped to 47 per cent, according to an ABC News-Washington Post poll. This adds weight to other surveys showing a steep drop in public confidence in his handling of the economy and in the prospects for a rebound.

The official admission about the recession reflects the view among Mr Bush's advisers, including Mr Samuel Skinner, the new White House chief of staff, that the president's popularity has been damaged by a failure to acknowledge the weakness of the economy and difficulties facing ordinary Americans.

Yesterday Mr Marlin Fitzwater, White House press secretary, said: "The people of this country know that the economy is in trouble. It doesn't make any sense to try to play games."

Mr Alan Greenspan, chairman of the Federal Reserve, is believed to share this view and to doubt whether further cuts in interest rates alone would revive the economy. He is scheduled to testify to Congress on the economy today.

The unrelenting bad news in the polls is increasing Republican pressure on the Fed to lower interest rates, and is raising the stakes ahead of Mr Bush's State of the Union address to Congress next month, when he is expected to unveil an economic growth package.

The Federal Open Market Committee, the Fed's policy-making arm, met yesterday to discuss a possible discount rate cut. A cut would prompt a further reduction in bank prime lending rates, now 7.5 per cent.

The administration had argued that a short, mild recession had bottomed out in the spring and that the economy had subsequently "stalled".

But recent statistics have pointed to renewed contraction. Industrial output fell 0.4 per cent last month, a much sharper decline than expected. Employment fell by almost 250,000.

The administration's economic advisers are sticking to their prediction that the economy should turn round by next spring, but official gloom has begun to colour all presidential actions and statements.

Mr Bush's sensitivity to criticism that he has been too preoccupied with foreign affairs prompted him to let Mr James Baker, US secretary of state, deliver a major policy address on the Soviet Union last week.

Mr Bush has also invited the chief executives of Detroit's big three car manufacturers – General Motors, Chrysler and Ford – to accompany him on his trip to Asia starting at the end of the year. In Japan, Mr Bush intends to press for a cut in the trade imbalance giving Tokyo a choice of either increasing imports or restricting its exports to the US.

The ABC News-Washington Post poll showed that seven in 10 respondents disapproved of Mr Bush's handling of the economy, and even among Republicans, six out of 10 expressed criticism.

The poll also showed that Mr Bush's negative numbers are rubbing off on the Republican party. Democrats – by a margin of 43 to 36 per cent – are rated as better able to tackle economic problems.

"We take these (poll) numbers to heart and I can assure you that we'll be increasing our efforts to take action on a number of fronts to turn the economy round", Mr Fitzwater said yesterday.

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■ US home starts fall in line with weaker trend
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■ Wall Street market report Back Page

Soviet Union wins reprieve on bank debt

By David Waller in Frankfurt and John Lloyd in Moscow

WESTERN banks yesterday gave the Soviet Union a three-month reprieve on bank debt repayments by agreeing to defer payments of principal.

The Soviet Union is to continue paying interest to its bank creditors under the terms of the agreement reached in Frankfurt between Vnesheconombank, the Soviet foreign trade bank, and representatives of leading creditor banks.

However, Vnesheconombank will defer payments of principal on debts to private banks taken up before January 1 1991, and due for repayment between December 5 this year and March 30 next year.

The agreement specifically excludes public issues and bond placements, and short-term debts and facilities, on which the Soviet Union will continue to pay principal as well as interest.

Bankers estimated the amount of principal being deferred at about $5.4bn – comprising some $3.4bn due in December and $2bn due in the first three months of next year. All the debt is thought to have been rolled over for a period of 90 days.

Total Soviet Union government and bank debt is thought to top $80bn.

Deutsche Bank, Germany's largest bank, which co-ordinated the talks, said Vnesheconombank's representatives had provided the committee of bankers with information on the Soviet Union's external debt position and "underlined the difficulties now facing the [new] sovereign states in meeting debt service obligations".

The committee of bankers will meet again no later than March to review the progress of the agreement and to discuss further steps.

In Moscow, Vnesheconombank has passed from the control of the USSR state bank (Gosbank) to that of the central bank of Russia – in another indication of the takeover of central institutions by the Russian authorities.

The official registration of Vnesheconombank under the Russian central bank was due to take place yesterday.

Vnesheconombank has been transformed into a "commercial" bank, with its shares held by the central banks of the former Soviet republics.

US secretary of state James Baker (centre) is greeted by Askar Akayev, president of Kirgizia, on his arrival at Manas airport yesterday

Mr Vladimir Sterlikov, the Vnesheconombank spokesman, last night harshly criticised Mr Egor Gaidar, the Russian deputy prime minister, for his remarks on Saturday that the bank was "technically bankrupt".

Mr Sterlikov said foreign banks were still prepared to support Vnesheconombank, and termed Mr Gaidar's remarks "incredible".

● Mr Konstantin Masyk, Ukraine's deputy prime minister, yesterday confirmed Ukrainian plans to introduce coupons in January to function as a parallel currency.

Ukraine has a severe shortage of roubles, which makes it difficult for the republic to match Russian price increases scheduled for January 2, and the coupons are viewed as a temporary solution to the crisis. However, western economists are concerned that the creation of what is, in effect, a second rouble may worsen the already rampant inflation.

Army assurance, Page 2

Banks upset by MCC's insolvency petitions in US and UK

By Bronwen Maddox and Robert Peston in London

MAXWELL Communication Corporation, one of the two public companies once controlled by the late Mr Robert Maxwell, yesterday filed for administration in London as a further measure to protect it from its creditors.

The use of the UK insolvency procedure follows MCC's petition to US courts on Monday under Chapter 11 of US bankruptcy law for protection from creditors for 180 days, pending reconstruction.

The filing for Chapter 11 protection brought a furious response from MCC's 43 banks, which are owed £1.3bn ($2.35bn) by MCC and are trying to have their own receiver appointed.

The High Court in London will decide on Friday whether to appoint accountants from Touche Ross as administrators, which is MCC's preference, or to choose Price Waterhouse as administrative receiver, as MCC's banks have requested.

MCC will argue that as Price Waterhouse has been acting for the banks, which represent around 80 per cent of the company's creditors, there would be a conflict of interest.

Mr Peter Laister, who took over two weeks ago as MCC's chairman, said the company had filed for protection in both countries to provide the same timescale for restructuring.

The board's decision to petition for Chapter 11 late on Monday night followed a meeting with the steering committee of MCC's banks. Mr Laister said "we were not confident that we could get a standstill from the banks" to freeze imminent repayments.

MCC's directors took three factors into consideration when deciding to seek protection from creditors.

● MCC faced substantial payments to two US investment banks on foreign exchange contracts in the next three weeks. It had to pay Goldman Sachs $29m before Christmas. A further sum of $23.7m was due to Salomon Brothers.

● It needed a cash injection of £50m from its 43 banks to fund its operations pending a full reconstruction. The banks indicated they would only provide the funds if they were given security for the loan. Any provision of collateral would have put MCC's bonds

Continued on Page 14

More reports, Page 16

Commission freezes bid for Wagons-Lits

By David Buchan in Brussels

THE European Commission yesterday said it was suspending the controversial takeover bid by Accor, the French catering and hotels group, for Wagons-Lits, the Franco-Belgian travel company.

The commission said it had "serious doubts" about the deal's effect on competition in motorway services and hotels.

Under EC merger rules, the Commission has four months to pronounce on Accor's bid for Wagon-Lits.

The EC anti-trust directorate's concerns are focused on the dominance which the proposed combine would have on motorway restaurants and catering in France, in which Accor and Wagon-Lits are, respectively, first and second, and where other competitors are much smaller.

But the Commission will also examine the deal's implications in the hotel business.

The chief activities of Accor and Wagon-Lits are in France and Belgium, but the two companies also operate in Germany and Spain. Accor owns the Motel 6 chain in the US.

The Commission said it was suspending Accor's bid, which is due to close tomorrow, from taking legal effect. Share trading could continue, but none of the rights attached to those shares could be exercised, and Wagon-Lits' structure could not be changed.

Wagon-Lits' share price yesterday fell by BFr410 to BFr8,500 after the Commission's investigation was announced. The bid for the Franco-Belgian group was launched two months ago at BFr8,650 a share.

Earlier this month, however, a Belgian court told Accor and Société Générale de Belgique, its partner in the bid it would have to raise their offer to BFr12,500 a share, the price at which they had bought a 27 per cent stake in July 1990. Accor is appealing against the ruling.

The higher price would value the entire company at about BFr6.8bn ($210m).

World Stock Markets, Back Page, Section II

London brokers fined

By Richard Waters in London

FIVE City of London broking firms were fined yesterday in a swathe of disciplinary action over the market-rigging scandal this autumn that shook the London Fox, the futures and options exchange.

In one of the widest-ranging series of actions by London regulators, six individuals were singled out for criticism, three of whom also resigned from the board of Fox, which trades soft commodities such as cocoa and coffee.

Coming just 10 weeks after the scandal broke, the moves indicate the unprecedented urgency with which regulators have moved to deal with one of the most damaging episodes to hit London's derivatives markets in recent years.

However, the Securities and Futures Authority, the regulatory body for the industry, declined to use its powers to suspend or ban particular firms or individuals, preferring to impose relatively mod-

Continued on Page 14

CONTENTS

Wanted: an anti-dumping deal by the end of the week

Uruguay Round negotiations on anti-dumping have stalled, leaving Gatt director-general Arthur Dunkel until Fri day to find an answer to problems that have persisted for the past five years

Page 5

MARKETS

STERLING
New York lunchtime:
$1.8225
London:
$1.8205 (1.8215)
DM2.8725 (2.875)
FFr9.8125 (9.8225)
SFr2.5375 (2.54)
Y234.25 (234)
£ index 91.4 (91.5)

GOLD
New York Comex Feb
$ 359.1 (360.9)
London:
$357.3 (359.65)

N SEA OIL (Argus)
Brent 15-day Jan
$18.175 (18.55)

Chief price changes yesterday: Page 15

DOLLAR
New York lunchtime:
DM1.5755
FFr5.3805
SFr1.393
Y128.48
London:
DM1.578 (1.5785)
FFr5.39 (5.3925)
SFr1.394 (1.395)
Y128.6 (128.45)
Tokyo close:Y128.28

US lunchtime rates
Fed Funds: $4\frac{7}{16}$%
3-mo Treasury Bills:
4.233%
Long Bond:
$102\frac{13}{16}$
yield: 7.751%

STOCK INDICES
FT-SE 100:
2,432.9 (-7.9)
FT-A All-Share:
1,165.56 (−0.4%)
FT-SE Eurotrack 100:
1,056.74 (+5.59)

New York lunchtime:
DJ Ind. Av.
2,913.91 (-5.14)
S&P Comp
383.86 (-0.60)
Tokyo: Nikkei
22,736.29 (-100.38)

LONDON MONEY
3-month interbank:
$10\frac{7}{8}$% ($10\frac{11}{16}$%)
Liffe long gilt future:
Mar $96\frac{21}{32}$ ($96\frac{21}{32}$)

EUROPEAN NEWS

Another republican leader takes control of forces on his territory

Soviet military assures Baker of neutrality

By John Lloyd and Gillian Tett in Moscow

MR James Baker, US secretary of state, has been assured the Soviet army will stay out of politics. However, he received further evidence yesterday that Soviet politicians cannot stay away from the Soviet army, as another republican president declared himself commander in chief of the Soviet military on his territory.

US officials told reporters that Mr Baker had been told by Marshall Yevgeny Shaposhnikov, Soviet defence minister, that the army would accept whatever was agreed by the politicians.

The Reuters news agency quoted an official as saying that "what we got was a pretty clear reflection of a military that is not going to intrude into politics".

However, Mr Ayaz Mutalibov, the Azerbaijani president, yesterday followed Mr Leonid Kravchuk, the Ukrainian president, in declaring himself head of the military forces on his territory – after a vote in the Azerbaijan parliament.

However, the commander of the Caucasian military district, which covers Azerbaijan, made a plea yesterday for his forces to be withdrawn entirely.

Major General Anatoly Kulikov told the Krasnaya Zvezda newspaper that 450 troops and civilians had been killed in ethnic wars in the region. "We don't belong in the Transcaucasus any more. We have to call a spade a spade – a civil war is going on here."

Mr Baker continued his rapid tour of the Soviet Union with a trip to the Central Asian republic of Kirgizia yesterday – as Mr Mikhail Gorbachev, the Soviet president whom Mr Baker has already politely consigned to history, continues to fight for at least a few more weeks of power.

The Supreme Soviet, for years relatively obedient to his will, yesterday finally demanded his resignation. An appeal adopted by the lower house of the legislature said that "as the president has kept himself aloof from important national and state issues, we raise the question of his resignation".

● The White House said yesterday it still intended to host an international conference in Washington to co-ordinate Soviet aid, in spite of French opposition, Reuter reports.

The January conference was proposed last week by Mr Baker as he was preparing for his trip to the Soviet Union. But President François Mitterrand of France told President George Bush that it would be a waste of time.

Mr Marlin Fitzwater, the White House spokesman, told reporters: "We think that this co-ordination is necessary as we focus on Soviet needs. President Mitterrand doesn't feel that's necessary. We simply disagree with him."

Gorbachev 'accepts end of union by January'

By Our Foreign Staff

SOVIET President Mikhail Gorbachev has accepted that the fast-disintegrating union will cease to exist by the end of this year, Russian President Boris Yeltsin said yesterday.

After a meeting with Mr Gorbachev, Mr Yeltsin told the Russian Information Agency that the Soviet president had come to terms with the formation of a Commonwealth of Independent States to replace the Soviet Union.

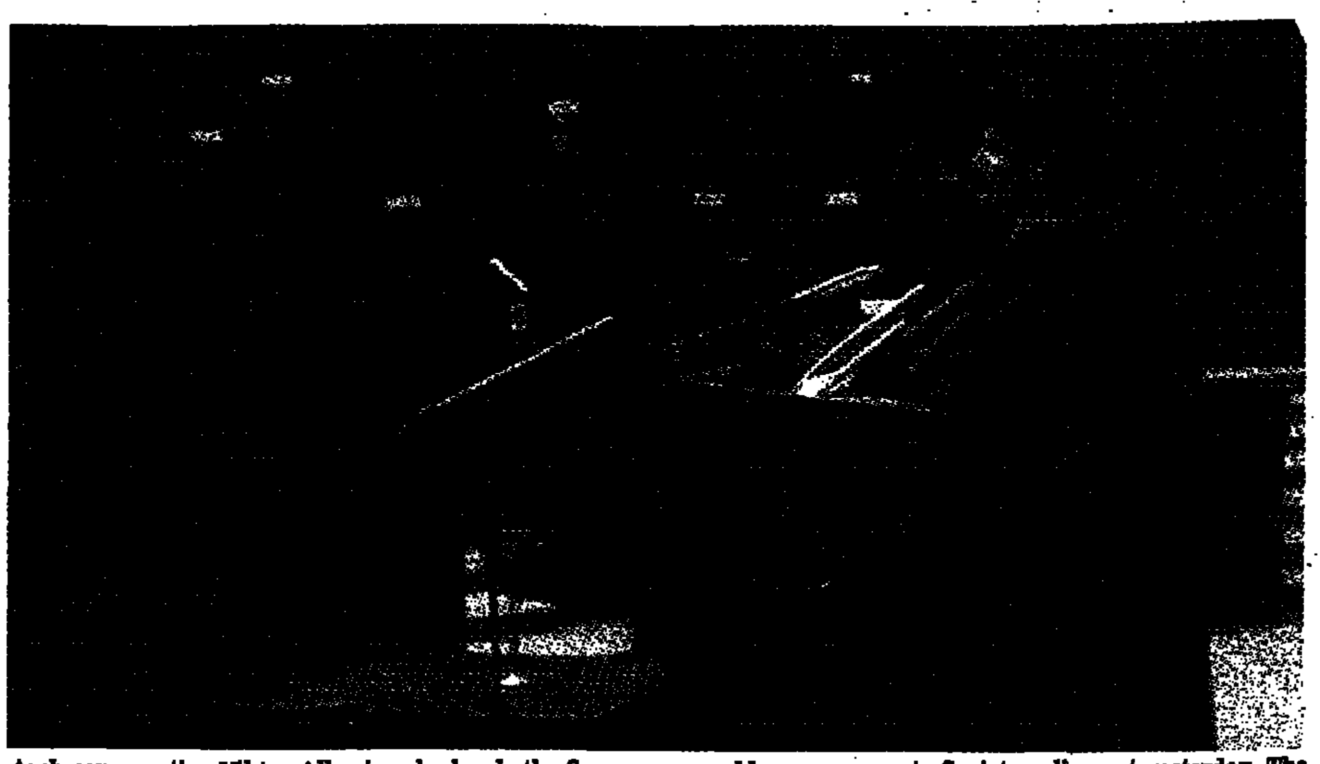
Liquidation of Soviet structures "would be completed in December, so we can start to live a qualitatively new way without the former Soviet Union by January," he said.

The process marks the final stage of the transfer of central power from the Soviet Union to the Russian federation. Structures not appropriated by Russia will be abolished.

Tass news agency quoted Mr Gorbachev as saying he would accept the commonwealth – proclaimed on December 8 by Russia, Ukraine and Belorussia – although he still believed the dismemberment of the Soviet Union would lead to a worsening of problems.

Mr Yeltsin had met the Soviet president to discuss the meeting of 10 heads of republics in Alma Ata on Saturday to sign an agreement extending the commonwealth to cover all but two of the Soviet republics.

Earlier Mr Yeltsin told the Italian newspaper La Repubblica that Mr Gorbachev would be useful only while power was being transferred to republican level, and that he would have to "take a decision" on Mr Gorbachev's future before the middle of January.



Arch conservative Viktor Alksnis, who heads the Soyuz group, addresses an empty Soviet parliament yesterday. The legislature has increasingly lost its authority as the power of the central government diminishes

Russia considers fuel clawback

By Andrew Hill in The Hague

RUSSIA could be left drastically short of diesel and crude oil this winter if it honours all export licences granted in the confusion following August's abortive coup.

Mr Vladimir Lopukhin, Russian energy minister, indicated yesterday that a combination of corruption and poor communication had left the federation with licence commitments for this month which will exceed its dwindling output.

Mr Lopukhin, in The Hague for the signing of the European energy charter, suggested that much of the oil committed for export would have to be clawed back for domestic consumption.

He said export licences had been granted for 33.6m tonnes of crude oil in December, when this month's production would be 36m tonnes. In diesel fuel the discrepancy is even greater, with production estimated at 5.6m tonnes and licences granted to export 14.1m tonnes.

The rogue contracts were granted between August and mid-November, when a Russian decree set out a more formal structure for granting licences.

The development of a separate energy policy in Russia – the old Soviet Union's largest energy producer – has been hamstrung by the disintegration of the central energy authorities and by neglect of the energy infrastructure under centralised management.

But Mr Lopukhin said Russia was already planning to improve its energy links with Kazakhstan, another producer of oil and gas, and was making moves to break up its monopoly oil and gas association into competing fully-integrated companies.

One such company, Lukoil, was set up about three weeks ago. Between eight and 12 similar companies are planned within the next six months, some in partnership with other republics.

Mr Lopukhin said the energy charter, designed to help the old Soviet Union exploit its resources, would ease the establishment of normal relations between the republics, almost all of which signed or are expected to sign yesterday's declaration.

But he added that progress to a free market was bound to be slow at first. "It's like coming out of prison: you don't want to go to work immediately, you want to lie on the grass for a while."

Forty-five countries and former Soviet republics yesterday signed the European energy charter, opening the way for a formal treaty which should help regenerate the economies of central and eastern Europe, writes Andrew Hill.

The declaration was also widely interpreted as a first step towards international recognition for the autonomous Soviet states. Of the 12 republics, only Armenia and Azerbaijan were unable to sign yesterday.

EC to probe German aid for car makers

By David Buchan in Brussels

THE European Commission is today expected to launch an investigation into nearly DM2bn (£700m) worth of German state aid to help Opel, Volkswagen and Mercedes-Benz create new car-making capacity in the country's five new eastern laender.

Sir Leon Brittan, EC competition commissioner, will try to convince his Commission colleagues that the aid, to be passed through the Treuhand privatisation agency, deserves further scrutiny on two grounds. Firstly, it was not formally notified to Brussels, as required under EC rules governing state aid to the car sector. Secondly, the aid "does not appear to correspond to what would be the normal behaviour of a private investor in the circumstances," an EC official said yesterday.

However, the Commission could still allow the aid to go ahead, if it does not appear to distort trade within the EC.

Earlier this year Brussels gave approval, and even contributed, to heavy public funding of a new Ford-VW plant to make recreation vehicles in a depressed part of Portugal. It justified this decision by saying this was a sector of high growth in the car market.

By contrast, EC officials say the investments in eastern Germany come at a time of depressed demand in the EC market for regular cars.

● Always on the scent of commercial irregularities, the European Commission yesterday announced it had sniffed – and snuffed – out a number of restrictive practices in the marketing of luxury perfumes.

As a result, Brussels said, Yves Saint Laurent Parfums, the French perfume company, had agreed to modify its distribution contracts, allowing distributors to have more freedom to set prices and trade among themselves.

The Commission concedes that makers of luxury perfumes have a right to be selective about retail outlets, but that more competition was needed in the sector.

NEWS IN BRIEF

Polish PM drops bid to form government

By Christopher Bobinski in Warsaw

MR Jan Olszewski, Poland's prime minister, yesterday abandoned attempts to form a government, blaming opposition from President Lech Walesa. The move leaves the president free to return to options originally suggested six weeks ago when the search for a government began. One of these envisaged combining the post of president and prime minister.

Mr Olszewski told MPs that Mr Walesa said he would not co-operate with a cabinet presented to him yesterday. The president only grudgingly nominated Mr Olszewski as prime minister earlier this month when he won the support of a centre-right majority coalition in parliament.

Swedish deficit worse than forecast

Sweden's budget deficit for the current financial year will amount to SKr50.6bn (£4.8bn), far worse than expected, writes Robert Taylor in Stockholm. This was announced yesterday by the state audit office, which also estimated the deficit for 1992-93 would increase to SKr80bn on present trends.

The central bank yesterday cut its interest rate to banks a further 1 percentage point to 14 per cent, in response to the strong net SKr25.6bn inflow of capital into Sweden in the week since the bank's 6 point increase in the rate to 17.5 per cent.

Optimism over French growth

French economic growth is expected to pick up slightly to an annualised rate of 2 per cent in the first six months of 1992, according to the latest forecast from Insée, the state statistics body, writes William Dawkins in Paris.

Mr Pierre Bérégovoy, finance minister, said this was compatible with the assumption of a 2.2 per cent growth in gross domestic product for next year, on which the government planned its 1992 budget.

The Financial Times (Europe) Ltd
Published by The Financial Times (Europe) Ltd., Frankfurt Branch, Nibelungenplatz 3, 6000 Frankfurt-am-Main 1; Telephone 49 69 156850; Fax 49 69 5964481; Telex 416193. Represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, R.A.F. McClean, G.T.S. Damer, A.C. Miller, D.E.P. Palmer, London. Printer: DVM GmbH-Hürriyet International, 6078 Neu-Isenburg 4, Frankfurt. Responsible editor: Richard Lambert, Financial Times, Number One Southwark Bridge, London SE1 9HL. The Financial Times Ltd, 1991.

Registered office: Number One, Southwark Bridge, London SE1 9HL. Company incorporated under the laws of England and Wales. Chairman: D.E.P. Palmer. Main shareholders: The Financial Times Limited, The Financial News Limited. Publishing director: J. Rolley, 168 Rue de Rivoli, 75044 Paris Cedex 01. Tel: (01) 4297 0621; Fax: (01) 4297 0629. Editor: Richard Lambert. Printer: SA Nord Eclair, 15/21 Rue de Caire, 59100 Roubaix Cedex 1. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

Financial Times (Scandinavia) Vimmelskaftet 42A, DK-1161 Copenhagen-K, Denmark. Telephone (33) 13 44 41. Fax (33) 935335.

EUROPEAN NEWS

Bonn's Yugoslav ambitions sink in EC fudge

By David Gardner in Brussels

THE compromise patched together by the European Community early yesterday to set in train recognition of Yugoslavia's breakaway republics by January 15 is a risky gamble. Most of the 12 hope that a month will be long enough for the UN Security Council to get a peace-keeping operation set up in Croatia, and for Lord Carrington's Hague peace conference to resume.

But the terms of the compromise are far from certain to help mediation efforts in the *disintegrating Yugoslav federation.*

After 10 hours of often rancorous debate, the 12 said they would recognise those Yugoslav republics willing to:

- Accept UN, Helsinki Act, and Paris Charter commitments on the rule of law, democracy and human rights.
- Guarantee ethnic and minority rights.
- Accept the inviolability of all frontiers.
- Honour all commitments to disarmament and regional security.
- Settle by agreement or arbitration whatever framework replaces the old state.
- Accept the draft "convention" on Yugoslavia's future worked out by the Hague peace conference.

All but the last of these conditions come from a sovereignty fitness checklist devised by France to deal with all new states emerging in Europe. The last is supposed somehow to ensure the republics return to the negotiating table at the Hague (or possibly Lisbon, when Portugal takes over the EC presidency from the Dutch in January).

There was little difficulty in agreeing the "motherhood list" as a Dutch official termed it; but every difficulty in restraining Bonn from breaking EC ranks and recognising Croatia and Slovenia this week.

Although EC constitutional lawyers attached to the Hague conference are supposed to decide which independence-seeking republics qualify for recognition, Germany may well keep Chancellor Helmut Kohl's promise to recognise Croatia and Slovenia before Christmas, and implement this decision automatically on January 15.

Senior Slovene officials say Mr Hans-Dietrich Genscher, Germany's foreign minister, told them Bonn will recognise the breakaway republics tomorrow. For the rest of the EC, there is nothing automatic about January 15's *decision.*

It is easy to pick holes in this fudge. The criteria are simultaneously inadequate and overreaching. Mr Hans van den Broek, the Dutch foreign minister, *conceded that a standard* international criterion for recognition, that a government be in effective control of its territory, could be a problem in Croatia, where Serbian irregulars and the Serb-dominated federal army hold enclaves they are fighting to extend.

At the same time, while Serbia and Croatia may be required legally to respect minority rights, there is nothing in international law which says they must accept the EC's blueprint for Yugoslavia's future drawn up at the Hague. Serbia's rejection of this loose confederation was one reason *the conference* broke down.

At issue is not whether the EC takes sides. The 12's attempts to single out Serbia for sanctions, because of its expansionism, in practice does *this already. As a UK official* put it, the dispute was about "a judgment over the timing of recognition".

Bonn's 11 partners (with the tepid exception of Denmark), the *Security Council*, and – belatedly – the US, all urged restraint on Germany. Lord Carrington, who has chaired the conference with ruthless pragmatism, said premature recognition could sink the peace effort and spill the fighting over into Bosnia-Hercegovina and Macedonia.

Mr Genscher was not impressed. Since the summer Germany has irritated its partners with threats of unilateral recognition. Dutch and other officials have argued that this attitude fueled Croat determination to fight rather than negotiate, and allowed the Ser*bian leadership to fan irreden*tist flames, by reminding Serbs that the Nazis backed the wartime fascist state in Croatia.

Asked whether yesterday's compromise would damage both Yugoslavia and the EC, Mr Van den Broek said "some fear recognition will exacerbate the situation; others take a different view. But we have a full month from now." In more ways than one, he might have added. For it will be both full and fraught.

Capital gripped by fear and anger

By Laura Silber in Belgrade

OUTRAGE and fear yesterday enveloped Belgrade, the Serbian and federal capital, after the Community decision to offer to recognise the six Yugoslav republics as independent states.

Mr Dobrosav Veizovic, Serbia's deputy foreign minister, said: "The EC has not given up its intention of committing a unilateral act to break up Yugoslavia." The Socialist-controlled Serbian parliament yesterday went into closed-door emergency session.

Ms Smilja Avramov, Serbia's legal adviser, told Belgrade Radio: "The EC last night committed aggression on Yugoslavia with its decision. ... [It] means the endangered existence of a sovereign and internationally recognised country – Yugoslavia." The Serb-controlled state presidency appeared to reject the EC decision by saying it would "persist in defending the inalienable rights of nations and the dignity of Yugoslavia".

While official Serbia lashed out at the EC, Belgrade's inhabitants seemed anxious and confused. Thick fog in the city centre underscored the sense of hopelessness and the widespread fear that the war will spread to Serbia.

Said Bojan, a 30-year-old lawyer: "The EC decision has pushed all of Yugoslavia, including Croatia and Slovenia, further into the abyss. Although the Community managed to preserve its unity, it leaves Serbia with little choice except war to protect the Serbs outside of the republic."

Some 2m Serbs live in Croatia and Bosnia-Hercegovina. *Mr Radovan Karadzic*, leader of Bosnia's Serbs, said: "The dictation of the EC will definitely lead to the escalation of the bloody war instead of a peaceful, democratic solution."

***In the view of Mr Dragoljub* Micunovic, head of the opposition Democratic Party: "The EC decision seeks the quickest solution. It's a dangerous half-compromise, because now *there is a race against time:* What will happen first? The blue helmets or the recognition of Croatia and Slovenia?"**

Olga, a 24-year-old student, said: "I have had enough of *this* politicians' war. I don't hate Croats or Slovenes. I am just scared everyone I know will flee the country, or be mobilised and then killed."

Home from the war. A Croat soldier is welcomed at Zagreb railway station by his young son

Croats see no end to the fighting

By Judy Dempsey in Zagreb

THE people of Zagreb, Croatia's capital, yesterday showed little enthusiasm for the EC decision to recognise the republic's independence on January 15 if it meets certain criteria.

Perhaps the bitter weather, the months of war, and the loss of thousands of lives, had numbed their feelings. But it was also the sense that recognition would not end the fighting, nor help heal the deep antagonisms now felt by Croats and Serbs living in the republic.

"Of course we will be recognised in January. We have met all the conditions. We have excellent rights for the Serbs here," said Dalia, a young student. "Once we have the recognition, we can buy arms to beat back the Serbian aggressors and the army. That is the only way to stop this war. Europe should now help us."

Another student, Tomislav, who left the federal army four months ago, is waiting to be called up to the Croatian army. "I will join. I have no choice. Recognition or not, the war will continue. I am very pessimistic," he said.

And what is the prospect of living in peace with the 560,000-strong Serb community? "The Serbs who live in the cities do not support Serbia, or the army," said Drazan Susic, a 24-year-old engineer. "But there are many radical Serbs living in the villages who will continue fighting. Personally, we will never be able to trust each other again."

Maja Stasic, a 35-year-old dentist, could hardly refrain from crying when she was asked about what recognition meant for her.

"There has been massacres of Croats by Serbs, and of Serbs by Croats. This has been a terrible war. How can we construct our lives together again, if and when the war ends?"

CDU sets out policy to forge a new Germany

By Quentin Peel in Dresden

GERMANY'S ruling Christian Democratic Union (CDU), senior partner in the governing coalition, succeeded yesterday in papering over divisions on a new manifesto for the 1990s.

Its policy now makes the forging of genuine unity between the two halves of Germany the priority – with a clear implication that this means restraint in the west to pay for the east. It also calls for a more dynamic and forceful German foreign policy.

Eastern deputies were outvoted when they called for an investigation of all CDU members of the Bundestag – western as well as eastern – to *check for links with the former* East German secret police.

The so-called Dresden Manifesto was unanimously approved on Monday night and is intended to provide the party with a broad enough programme to accommodate all – from Catholic west to Protestant east.

On foreign policy it committed the party to creating a united states of Europe and calls for an end to the constitutional ban on using German troops "out of area", arguing for their use both in UN peacekeeping and peacemaking exercises, and in any future European force.

It does not call into question the borders of the united Germany, but suggests that Germany has a special responsibility for Germans living in other countries. It also calls for the creation of a "Euro-region" – *for example Silesia, Bohemia* and Saxony – to promote special regional co-operation where Germans live on either sides of national borders.

On internal policy the stress is on investment in the east, at the probable expense of greater social security in the west.

As for the "sins of the past", the party wants both retribution and forgiveness for those *who may have collaborated* with the Stasi.

Anyone guilty of bending the law should be banned from public office, it says. But "at the end of the necessary clarifications, reconciliation and social harmony must prevail".

A last-minute vote at the party congress shelved any debate on the divisive issue of abortion, but lingering suspicions between east and west remain. The problem of reconciling an extremely liberal abortion law in the east with a highly restrictive law in the west will have to be left to the party's MPs to resolve.

IG Metall pressure over E German restructuring

By Leslie Colitt in Berlin

GERMANY'S militant IG Metall engineering union, has demanded that the government and the Treuhand privatisation agency stop opposing the creation of a holding company to restructure ailing east German companies.

Mr Horst Wagner, head of the Berlin-Brandenburg region for IG Metall, warned that if Bonn did not quickly drop its opposition there would be no industrial companies left to restructure in east Berlin and surrounding Brandenburg state. The loss of jobs was already dramatic and had exceeded all the "worst fears", he said. Berlin-Brandenburg had an effective unemployment rate of 60 per cent, or 923,000, which was three times the official jobless figure.

Mrs Birgit Breuel, the Treuhand president, was adamant last week that it would be a mistake to set up a state-supported holding company to restructure east German companies. Such a step would create "two classes" of companies and employees while separating the companies from the market. She signalled that the closure of unviable east German companies would be stepped up in coming weeks.

Indian banking system 'should be autonomous'

By David Housego in New Delhi

INDIAN banks should no longer be required to channel credit in line with government determined priorities, according to an official report published yesterday that recommends sweeping changes in India's banking system.

The report, which describes the state-owned Indian banking system as "over-regulated and over-administered," says that increased autonomy over credit allocation and management is the key to improving performance.

The report, commissioned by Dr Manmohan Singh, the finance minister, is silent on privatisation which was deliberately omitted from the terms of reference of the committee that prepared it.

Dr Manmohan Singh: silent on privatisation

Warning of the risk of bank failures unless urgent measures are taken, the report recommends a capital restructuring to achieve internationally accepted capital ratios. It also argues for some of the state-owned banks to merge to achieve a top layer of three or *four Indian banks of international dimensions.*

The report, which should give renewed impetus to the government's flagging liberalisation programme, recommends that the government should be more generous in allowing foreign banks to open offices or branches in India.

It recommends the *abolition* of requirements that companies seeking to raise equity funds from the capital markets should first get government approval. "The issuer should be free to decide on the nature of the issue, its terms, and its pricing," says the committee.

It recommends that the capital markets "should be gradually opened up to foreign portfolio investment." At present foreigners are only allowed to purchase Indian stock indirectly through offshore funds.

The report was commissioned by Dr Singh as a way of preparing public opinion for big changes in the state-owned banking system. The recommendations of the committee, headed by Mr M. Narasimham, a former central bank governor, are in line with a recent World Bank report on the financial sector – itself seen as forerunner to a World Bank *sectoral loan.*

The committee was divided, however, on how to consolidate the autonomy of banks against interference from politicians or civil servants. The majority on the committee favoured the continuing appointment of officials to represent the government on the board of banks. A dissenting note by two members argues that full autonomy *will only be guaranteed by the* government not appointing officials to the boards of banks and by the abolition of the banking division in the Ministry of Finance.

Though the government has yet to pronounce on the report, it is expected to accept the bulk of its recommendations and the need for urgent action.

Warning of balance sheets burdened by bad debt, the report says: "The deterioration in the financial health of the system has reached a point where unless remedial measures are taken soon, it could further erode the real value of *and return on the savings* entrusted to them and even have an adverse impact on depositor and investor confidence."

The committee sees the heart of the banks' problems as lying in the government's pre-emption of bank resources and in its channelling of credit to priority sectors.

The report says that 63.5 per cent of bank deposits are pre-empted for lending to the public sector or to fund the government deficit through statutory liquidity ratios and other reserve requirements. The report says this proportion *must come down from this* year's levels.

NZ budget outlook worsens

By Terry Hall in Wellington

MS Ruth Richardson, New Zealand's finance minister, yesterday disclosed worse-than-expected budget forecasts for the next three years, largely as a result of lower tax receipts brought on by the deep recession and the *government's retreat on social cuts* announced in the July budget.

She said the government had abandoned its plan to balance the budget in three years. This was due to weaker-than-expected economic growth, lower tax returns, changes in social costs, which would add NZ$450m ($250m) a year to the deficit in the next two years, and extra costs in implementing structural reform in the public sector.

Widespread protests and a dramatic slide in the opinion polls have forced the government to pull back from a major redesign of the social security system, notably in superannuation, which was announced in the budget.

Ms Richardson said the budget deficit for 1991-92 would be NZ$1bn more than forecast at NZ$2.7bn, or 3.82 per cent of GDP.

The 1992-93 deficit was projected at NZ$2.3bn, or 3 per cent of GDP. For 1993-94, when the government had previously said the budget would in surplus, it now forecasts a deficit of NZ$2.25bn or 2.8 per cent of GDP.

The depth of the recession was illustrated yesterday by Reserve Bank forecasts showing that the economic climate was much worse than it had forecast.

It said it was surprised by the sharp fall in economic activity during the year, and was revising downwards its estimates from the 1.5 per cent growth predicted in August. However, it said the recession was now at its worst.

The bank forecast that economic growth would grow by *1.8 per cent in the 1992-93* financial year due to strong export growth.

But unemployment would grow to 13.1 per cent, and those with jobs would face real cuts in incomes.

Reprieve for Rainbow suspect

By Terry Hall in Wellington

NEW ZEALAND said yesterday it would not seek the extradite suspected Rainbow Warrior saboteur Mr Gerald Andries from Switzerland, a move seen as reflecting fears of political and trade repercussions from France.

The decision halts a court case in Auckland that was seeking Mr Andries' extradition. He was arrested by Swiss police last month on a warrant issued by New Zealand police over the bombing of the Greenpeace ship Rainbow Warrior in Auckland Harbour in July 1985. A photographer, Mr Fernando Periera, was killed in the incident.

Two French agents, Mr Alan Marfart and Miss Dominique Prieur, were *sentenced to 10* years' jail after admitting manslaughter. But they served only a fraction of that time after being transferred to French Polynesia when New Zealand bowed to French pressure.

In April French Prime Minister Michel Rocard visited New Zealand to apologise for the incident and pay over a cheque for reparations. Mr Jim Bolger, the New Zealand prime minister, said then he hoped the matter was over.

Mr Doug Graham, the justice minister, said yesterday it was important that the international rule of law be respected. However Mr David Lange, who as prime minister in 1988 was castigated by Mr Bolger for his handling of the issue, *said the decision* was a "difficult pill to swallow."

Greenpeace said it was considering attempting a private extradition so that Mr Andries could stand trial.

Pretoria discloses trade links with Africa

By Philip Gawith in Johannesburg

THE South African government has released details of its trade relations with the rest of Africa, disclosing business links with nearly every country on the continent despite the sanctions campaign against Pretoria.

The figures are the first released since 1985 when publication of trade figures with individual countries was stopped because of the sanctions campaign.

The figures show that South Africa did more trade in 1990 with Botswana, Lesotho and Swaziland (members, with South Africa, of the region's Customs Union) and the nominally independent TBVC states (*Transkei, Bophutatswana,* Venda and Ciskei) than it did with the other 49 countries on the continent with which it traded.

Of these other countries, Zimbabwe is by far the largest trading partner, accounting for 31 per cent of South Africa's trade with the rest of the continent. Zimbabwe remains *arguably South Africa's most vociferous critic* on the continent.

The figures, released recently by the Department of Foreign Affairs, show a balance of trade overwhelmingly in South Africa's favour. Last year saw imports worth R713.3m ($260m) from Africa last year, while exports to the same countries totalled R4.07bn.

Another feature of the data is that it confirms what has become common knowledge, namely that members – such as Zambia, Zimbabwe and Mozambique – of the South African Development Co-ordination Conference (SADCC), formed in part to lessen reliance on South Africa, are as *dependent as ever.*

After Zimbabwe, Zambia is South Africa's largest trading partner on the continent, followed by Mozambique, Zaire and Malawi, all SADCC countries.

Only ten countries exported more to South Africa *than vice versa.* The five biggest exporters to South Africa were Zimbabwe, Malawi, Ivory Coast, Mozambique and Zaire. The five biggest importers were Zimbabwe, Zambia, Zaire, Mozambique and Malawi.

South Africa's total foreign trade in 1990 was R80.5bn, so the R4.7bn with Africa was a modest share. However, this excludes trade with the BLS and TBVC states, reliably understood to have been greater than R5bn last year.

Although securing payment *is a considerable problem* in trade on the continent, South African traders must nevertheless be confident that with political barriers falling away, they are ideally situated to take a greater share of the market.

South African exports to Africa grew by 40 per cent in 1989 and by 22 per cent last year.

M-Net, the South African pay television channel, has announced that it is entering into a partnership agreement with Kenya Television Network (KTN) in the first important investment deal between the two countries since President F.W. de Klerk's groundbreaking visit to Kenya in June, Philip Gawith writes.

An M-Net spokesman said they were intending to take a 50 per cent stake in KTN, in partnership with a Kenyan businessman, for an undisclosed sum. KTN is at present an independent television service, but it will be changing format next year to offer a mix of open and pay television.

The investment is a clear sign of South Africa's improving relations with its continental neighbours. The spokesman commented: "Without the improvement in relations I don't think it would have been possible to have done this venture." Last year bilateral trade between South Africa and Kenya was only R31m. Mr Pik Botha, foreign minister, predicted a 10-fold increase.

M-Net, which is controlled by a consortium of South Africa's major publishing houses, has enjoyed phenomenal success since it began broadcasting in late 1986. It now has over 630,000 subscribers in South Africa and Lesotho, making it the third largest subscription television service outside the US.

Victims of the 1984 Union Carbide gas leak in Bhopal in which 4,000 people died, campaign near Parliament House in New Delhi yesterday demanding that the government of Prime Minister P.V. Narasimha Rao provide better financial and living conditions. As deaths caused by the leak have continued to mount, frequent changes of government in India have politicised the issue, further complicating court actions and compensation claims. Six years ago, the government drew up a scheme for cash disbursements to various categories of Bhopal victims and their families. But continuous litigation left them bereft of any relief except for nominal interim compensation.

Exports better than expected despite stagnant world trade

Thailand shrugs off world recession with 7.9% growth

By Peter Ungphakorn in Bangkok

BETTER-than-expected export growth this year has helped the Thai economy expand by 7.9 per cent in spite of recession in the leading economies and almost stagnant world trade, the Bank of Thailand said yesterday.

Bank officials, announcing the government's latest figures at an annual press conference, expressed satisfaction with the way Thailand's export-oriented economy has withstood *difficult external conditions.*

They said they expected the country's growth rate to continue at about 8 per cent next year because of predicted recoveries in the world economy and global trade, stronger prices for rice and other Thai agricultural exports, and gradual improvements in the country's competitiveness.

Important on-going policies designed to cut costs in Thailand include liberalisation in foreign exchange dealings, other activities in the financial sector and tax reform. The government is planning to follow recent cuts on import duties on machinery, vehicles and computers with further reductions on raw materials imports and personal and corporate income tax. Value added tax is replacing business tax on January 1.

Inflation and the trade *deficit* in goods and services, the two issues causing the greatest concern earlier in the year, appear to be easing off. Some uncertainty about the global environment and the implications of the Thai coup in February has slowed down investment.

"Tackling inflation has been the government's most *successful achievement this year,*" said Mr Vijit Supinit, Bank of Thailand governor. Estimates for the whole year, based on figures for the first 11 months, suggest the consumer price index, previously expected to rise 7.5 per cent this year, has declined from last year's 6 per cent to 5.7 per cent.

The current account deficit, estimated at Baht207bn ($8.2bn) amounts to 8.7 per cent of gross domestic product, a slight improvement over the 8.9 per cent registered last year. It has been achieved in the face of a decline in earnings from tourism and Thai workers in the Middle East. An estimated 21.2 per cent rise in the value of merchandise exports and a slowdown in import growth to 17.8 per cent combined with the government's traditional caution in avoiding budget deficits and reining in bank credit expansion.

Economists agree that the deficit is still manageable because Thailand's foreign exchange reserves are enough to finance almost six months imports.

Some are concerned that because the country is not saving enough, the current account deficit will continue at its present comparatively high level and could cause problems in the next four or five years.

Yesterday, central bank officials expressed optimism that the deficit would continue to decline as a proportion of GDP and that more savings could be mobilised through various tax and money market reforms that are scheduled to be introduced *in the coming* months.

NEWS IN BRIEF

Time running out for Mideast negotiators

ISRAELI, Palestinian and Jordanian negotiators met again yesterday but time was running out for them to reach agreement on how to set up talks on Palestinian autonomy, Reuter reports from Washington.

Mr Yossi Ben Aharon, head of an Israeli delegation in separate talks with Syria, said this round of negotiations, now in its second week, would probably end this week.

Mr Benjamin Netanyahu, the Israeli deputy minister, said he expected the next round would take place in late January.

Four full days of direct talks in Washington have produced little progress and on Monday the negotiations, pitting Israel against Syria, Lebanon and a joint Palestinian-Jordanian delegation, seemed on the verge of breakdown.

The main sticking point is the disagreement between Israel and the Palestinians over the status of the Palestinian delegates, who want to negotiate self-rule for the West Bank and Gaza Strip independently of their Jordanian partners.

Ethiopia appeals for aid

Ethiopia yesterday appealed for 1.28m tonnes of emergency food relief in 1992 for 7.4m starving people, Reuter reports from Addis Ababa.

Mr Simon Mechale, Relief and Rehabilitation Commission (RRC) commissioner, told representatives of United Nations agencies and western donor countries the crop yield in 1991 was too low to meet the country's needs.

Mr Simon blamed civil strife, tribal conflicts, drought, pests and widespread seed shortages for the poor performance.

Taiwan welcomes China move

China's *decision to set up an organisation to promote further* links with Taipei was given a cautious welcome by the Taiwan authorities yesterday. Mr Ma Ying-Jeou, vice chairman of Taiwan's official Mainland Affairs Council, said China had displayed a new pragmatism in China-Taiwan relations, *Laiuetta Mudie* reports from Taipei.

The Association for Relations across the Taiwan Straits was opened in Beijing on Monday. It marks a change in China's policy towards Taiwan, and means that the two sides will now have a semi-official channel through which to discuss trade, communications and transport links, as well as common problems such as piracy and smuggling in the Taiwan Strait.

Japanese plea to Burma

A senior Japanese official travelled to Burma yesterday to try to persuade its military junta, which suppressed student protests last week, to heed international opinion, Reuter reports from Bangkok.

The *three-day visit by Mr Kunihiko Saito, deputy foreign minister*, is Tokyo's first high-level official contact with the military government in Rangoon in recent years.

Sanctions 'kill 80,000 children'

Iraq said yesterday that 80,000 children had died because of shortages caused by UN sanctions imposed over its invasion of Kuwait, Reuter reports from Cairo. Mr Nabil *Nejim al-Takriti*, Baghdad's emissary to the 21-member Arab league, made the claim and urged member states to send Iraq medicine. The envoy said Iraq had run out of key drugs including cancer treatments.

Gadaffi blames the weather

Libyan leader Muammer Gadaffi said bad weather caused the 1988 Lockerbie airliner disaster which killed 270 people – not a Libyan bomb as charged by the US and Britain, who are demanding that Tripoli hand over two agents they accuse of planting the explosive, Reuter reports from Rome.

Welcome for repeal of UN stance on Zionism

By Hugh Carnegy in Jerusalem

ISRAEL yesterday warmly welcomed repeal by the United Nations General Assembly of a 1975 resolution equating Zionism with racism. But US hopes that it would help Middle East peace talks flopped as both sides continued to trade accusations over the issue.

Mr Yitzhak Shamir, the prime minister, telephoned President George Bush to *thank him for initiating the* removal of what he called a "historic distortion".

President Chaim Herzog, Israel's UN ambassador at the *time the resolution was passed*, said the landslide vote wiped clean a "shameful stain" on the UN. But officials were angry that a number of Arab countries joined the 25 nations which voted to retain the resolution, including Syria, Jordan and Lebanon, with which it has opened peace talks.

They said these countries remained unwilling to acknowledge Israel's right to exist. Mr David Levy, foreign minister, said the vote would not affect Israel's refusal to allow the UN a role in peace talks. Syria and the Palestinians, *who are also negotiating* with Israel, both said the repeal of the resolution was irrelevant. "Israeli repression of the Palestinian people and *their denial of their legitimate* national rights, foremost that of self-determination, is racist in essence," said Mr Faisal Husseini, the prominent Palestinian leader in Jerusalem.

Israel moves on exchange rates

By Hugh Carnegy in Jerusalem

ISRAEL yesterday revised its system of exchange rate management, signalling the amount it will allow the shekel to float downwards over a year in a bid to eliminate damaging bouts of devaluation speculation and improve conditions for the foreign trade sector.

The measures followed a sharp cut in interest rates implemented at the beginning of the week.

The actions represent a concerted effort by the Bank of *Israel and the Finance Ministry* to combat disappointing growth rates – especially negative export growth this year – and fast-rising unemployment *fuelled* by mass Soviet Jewish immigration.

The new currency system is intended to minimise exchange rate uncertainty over the next 12 months and so prevent the periodic bursts of devaluation speculation that have plagued the economy over the past two years, disrupting currency and foreign trade flows.

Instead of irregular shifts in the shekel's base, or median rate, the Bank of Israel said it would allow the base rate to move down by up to 12 per cent over the next year, roughly the difference between inflation in Israel and its main trading partners.

The rate of the shift would *be guided by* market pressures on a day-to-day basis, although the Bank of Israel began by adjusting the median rate downwards by three per cent yesterday.

There was little immediate change in the shekel rate because the currency is allowed to fluctuate up by 5 and per cent above or below the median rate and was already within the newly-set band. The shekel traded at about 2.31 to the US dollar.

Other measures taken included *reductions* in exchange rate subsidies for exporters and plans to eliminate travel tax, commission on foreign currency purchases and surcharges on imported services by the end of 1992.

This week's actions represent the first *significant* impact of the policies of Mr Jacob Frenkel, the Bank of Israel Governor who moved from a senior post at the International Monetary Fund in August.

He roundly defeated devaluation speculators by hiking interest rates over the autumn and refusing to budge the shekel, which has helped to squeeze inflation *at the same* time.

Cracks begin to form in China's iron rice bowl

Fewer children and less state welfare mean big problems for care of the elderly, writes **Yvonne Preston**

CHINA'S population is ageing fast. Old people make up 8.6 per cent of its 1.1bn people but by 2025 this will more than double to 19.6 per cent or 280m.

What this means to a country with only rudimentary facilities for the old and a primitive pension system which ignores *the 80 per cent of people living* in the countryside is beginning to dawn on the Chinese government.

Traditionally the burden of care for the elderly has fallen on their families. A recent survey showed 63 per cent of urban elderly living with either children or grandchildren.

In rural areas the end of the communes *and collectivised farming has* left the elderly with no alternative but to live with the extended family or, if they have no one, in bleak state welfare homes.

Growing life expectancy and strict birth control policies are quickly changing China's demographic profile. In a pattern more familiar to the developed west than developing Asian countries, fewer and fewer productive workers are expected to provide for *more and more old people.*

The urgent need is to develop contributory pension schemes – "socialist non-commercial pension insurance schemes" – Cui Naifu, the minister of civil affairs, recently called them. Urban workers accustomed to rely on their employers until they die may soon be expected to contribute a *substantial slice of a low wage to retirement* funds. Pilot schemes are already under way.

Contributory rural pension insurance schemes are also urgently needed. The magnitude of the rural problem is clear enough with 73m aged over 60, according to last year's census. Usual retirement ages are 60 for men and 55 for women.

The notion that the state will provide is becoming as out of date in *socialist China as it was in Mrs* Thatcher's Britain, but it may not prove easy to persuade the urban workers of the benefits of their brave new world.

Until now they have paid nominal contributions to draw lifetime pensions from their state employers. Known as the system of the "iron rice bowl", *it is sustainable for state enter*prises making money, but untenable for the loss makers and the heavily indebted which are being forced to cut back on their retired workers' pensions.

The cost of urban workers' pensions, if nothing changes, will approach 90 per cent of state enterprises' wage bill by the 2020s.

The old style welfare system was never a universal social welfare sys*tem as non-socialist countries* understand it. Beginning in 1949 it has been based on payment in kind. Instead of money workers had welfare, housing, medical provision and old age pensions. State enterprises are now called on to concentrate on making profits.

Creating a contributory rural pension scheme is more difficult because *a certain income level is* necessary before any contributions are possible. At around 800 yuan ($200) it excludes many rural Chinese.

So far headway has been made only in the economically developed areas, where many peasant farmers have grown *rich in the last* ten years. Even here, as the summer flood toll made clear, people are reluctant to buy insurance cover. They prefer the old insurance of many children to care for them in old age.

Various pilot schemes are under way, including regional foundations covering employees in the state and private *sector*, private schemes requiring part employee-part employer contributions, and the encouragement of individual investment in the People's Insurance Company for old age cover.

The privatisation of welfare promises a bonanza for the PIC, which so far has no competition.

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US sets deadline to end copyright talks with China

By **Nancy Dunne** in Washington and Agencies

MRS Carla Hills, US trade representative, has set January 16 as the "firm deadline" for ending negotiations with China over intellectual property rights protection.

Early deadlines have come and gone without retaliation, but this time Mrs Hills is ready to impose sanctions if Beijing fails to comply with US demands. Meanwhile, Mr Joseph Massey, assistant US trade representative, will go again to China for a last attempt to settle the dispute.

In Beijing, China said the threat of punitive tariffs on Chinese goods was "discrimination" and warned Washington such measures would not compel it to take action to protect US patents and copyrights. Such foreign pressure did not work with China, and trade disputes should be solved through dialogue, China's official Outlook magazine said.

The official New China News Agency quoted the magazine as saying China still hoped to continue talks with the US.

But failure to achieve settlement before the deadline will mean US retaliation against $750m (£416m) worth of Chinese trade. A preliminary "hit list" of possible sanctions includes clothing, textiles, beer, ores, pharmaceuticals, footwear, jewellery, hardware, electronic instruments and watches.

The Bush Administration's stance towards China has been hardened at the insistence of Congress. It could grow stiffer still as the Democratic presidential candidates have joined in criticism of the President's cordial relations with Chinese officials.

Mrs Hills began an investigation into China's "deficient protection of US intellectual property" on May 26, 1991, under a statute called Special 301. The law requires her to list offenders and retaliate if no agreement is reached in six months. She is allowed to extend the negotiations by three months if enough progress has been made.

Although Chinese trade officials have made several promises to conform to US demands, Mrs Hills said they have not been sufficiently specific. For example, Beijing agreed to join the Berne Convention on copyright and the Geneva Phonogram Agreement but would not commit itself to a signing date. The six months of negotiations ended on November 26. Mrs Hills extended the talks to draft a list of possible sanctions. After public hearings on January 6 and 7, she will select the sanctions.

Mrs Hills said the Chinese have been informed of US "willingness to continue negotiations until we determine which Chinese products will be subject to increased tariffs. Chinese negotiators are aware that prohibitive tariffs will be put in place shortly after January 16 if no agreement is reached."

The US complaint centres specifically on China's copyright law and the "particularly poor protection provided to computer programmes and sound recordings"; failure to provide copyright protection for US works not first published in China; "deficient" patent laws and protection of trade secrets, and lax enforcement of trademark rights.

The EC has said it will freeze co-operation initiatives with China pending a report on its human rights record, Reuter reports from Brussels.

EC foreign ministers, who discussed the issue on Monday, asked their political committee to draw up a detailed report. Pending the report..."the 12 (EC member states) and the Commission will refrain from taking any new initiatives concerning co-operation projects," a statement said.

External Relations Commissioner Frans Andriessen, who visited China earlier this year, has said the human rights position has improved, but still gives cause for concern.

US official warns on financial services threat to Gatt Round

NEARLY 100 US businessmen, 30 congressional aides, a Congressional delegation and most US trade officials are converging on Geneva in this final week of the Uruguay Round, hoping delicately-wrought compromises can beat the many obstacles to its completion, Nancy Dunne and George Graham report.

But a US Treasury official warned the entire round could be hit by an impending stalemate over trade in financial services. Mr Olin Wethington, assistant secretary for international affairs at the Treasury, said he was "quite pessimistic" about achieving an accord on the financial services sector, part of a broader negotiation on trade in services.

Mrs Carla Hills, US trade representative, said she might stop in Geneva on her way to the US-EC ministerial meeting on Saturday. She continued "to plan on success, not to speculate on failure."

On Friday, Mr Arthur Dunkel, Gatt director-general, is to present draft final accords in all areas under negotiation. Mrs Hills said parts of the text might be changed but not so as to mean reopening the talks. This week is likely to be the Round's last chance. "It's very difficult to continue this process indefinitely," Mrs Hills said. It would not be lack of time which blocked agreement, but nations' inability to summon the will to surmount the "hurdles".

One of those could be financial services. Mr Wethington said it was hard to conceive that Mr Dunkel's final text would "have the support of everyone because the differences are too vast. It will certainly not have our support if it does not contain major elements of our position".

The US, a top exporter of financial services, has been fighting for access to financial markets, but has met resistance from countries such as Singapore, Thailand and India. The US is a "problem" country itself, in that foreign banks cannot do many kinds of business across state boundaries.

Wanted: anti-dumping deal by the end of the week

Gatt's Dunkel must find formula on which Uruguay Round's fate may depend, writes **William Dullforce**

URUGUAY Round negotiations on anti-dumping have ground to a halt, leaving Mr Arthur Dunkel, director-general of the General Agreement on Tariffs and Trade (Gatt), and his aides with the task of formulating by Friday compromises on matters that have defied governments for the past five years.

The issue is particularly delicate because of its importance for Japan and also because it ranges a broad alliance of industrialised and developing countries against the US and the European Community.

The interests of Japan, the world's third-biggest economy, have hitherto been overshadowed by the torrid dispute over farm subsidies between the EC and the US which still jeopardises the completion of the trade talks.

Resolution of the EC-US dispute will open the way for an agreement on agriculture that will be extremely painful for Tokyo because it will certainly stipulate that the Japanese rice market be opened to imports. The Japanese government needs to be able to put some solid benefits from the Round into the domestic political scale, in order to temper the expected backlash over rice.

One of Japan's principal negotiating objectives has been to secure clearer rules for international trade that would be less open to abuse. Gatt's anti-dumping code, under which importing countries penalise exporters who dump goods on their markets, is one facet prone to misuse.

The code allows governments to slap extra duties on the products of foreign companies sold on their markets at prices lower than those at which they are sold at home or at prices which are lower than the cost of producing the goods.

Dumping, it is agreed, represents unfair competition but the 1980s saw a surge in the use of anti-dumping legislation, notably by the EC and the US, frequently on questionable grounds and with the fairly obvious intention of protecting domestic producers.

In Europe action against imports of consumer electronics, such as typewriters and video recorders, has been in the limelight but, worldwide, governments have been aiming at an ever wider range of targets, including European and South American steel. Asian sweaters, Venezuelan and Mexican cement and Norwegian salmon. At the end of June 209 anti-dumping measures were in effect in the US, 143 in the EC and 71 in Canada, according to notifications to the Gatt secretariat.

Moreover, governments' appetite for anti-dumping is growing fast. Developing countries are passing their own laws. Last month even Japan announced that it was launching its first ever anti-dumping probe into imports of ferro-silico-manganese from China, Norway and South Africa.

The situation has became grotesque in the context of a Gatt system intended to promote international trade. It was generally accepted five years ago that the anti-dumping code needed to be tightened up and that controversial national laws against dumping should be changed to comply with a credible international set of rules.

NEW ANTI-DUMPING CASES INITIATED BY MAJOR GATT TRADING PARTNERS

	Australia	US	Canada	EC	Mexico	Total*
1980	8	21	25	16	0	72
1981	20	13	24	34	0	94
1982	79	58	79	33	0	249
1983	80	49	26	30	0	186
1984	53	37	27	39	0	158
1985	61	76	37	32	0	208
1986	62	64	16	12	0	157
1987	21	15	32	32	17	123
1988	16	39	15	29	10	124
1989	21	23	13	14	**3	85
Total	421	395	294	271	30	1456

*Total includes claims from other countries **First half only. Source: GATT;ITC

Washington and Brussels said they would agree to revision of the code in return for inclusion of provisions that would allow them to take action against exporters who circumvent legitimate anti-dumping charges by assembling products from imported components in the importing country or by assembling in a third country.

Japan and, with even greater vehemence, other Asian exporters such as Hong Kong and Singapore have said they could agree to reasonable rules against circumvention once they see firm discipline applied to anti-dumping action. Neither side feels that its conditions have been met.

Tentative understandings have been reached on techniques that would force governments to be more stringent in the criteria they apply to determine whether an exporter is dumping and whether domestic producers are suffering injury. Procedures could be simplified and quickened, diminishing harassment of traders. But a draft working paper from Mr Dunkel at the end of November still listed a dozen open issues.

Some issues appear to be completely blocked. Japan insists that it is common and legitimate business practice for companies investing in new products to sell them at prices below costs in an initial marketing phase. The US has refused a compromise under which, if an exporter persisted with low prices into a second or third year, dumping might be considered to have occurred and anti-dumping duties could be charged retro-actively.

The big importers want rules against three forms of circumvention: the assembly of imported plants in the importing country, assembly in a third country and "country hopping" in which a globally operating company accused of dumping starts to supply an import market from a factory in a third country.

According to the Japanese, the Americans have hardened their stance in the last few weeks by claiming that anti-dumping duties on assembled products can be automatically applied to imports of components from third countries that go into the product. Charges levelled against, say, a Toshiba computer would also be slapped on components of the computer supplied by firms in Korea or Malaysia without separate investigations being conducted to prove dumping.

Feelings are running high on anti-dumping and the Japanese have strong support. Thirty countries last month singled out revision of anti-dumping rules as one of the areas in which the fate of the Uruguay Round would be decided.

British Gas in $630m deal to develop Tunisian field

By **Francis Ghilès**

BRITISH GAS yesterday signed an agreement with Tunisia to develop the 30bn cu metre Miskar gas field, 100 kms off the south-eastern port of Sfax, at a cost of $630m (£350m).

Production is expected to start in three years and rise to an annual figure of 1.6bn cu metres of commercial gas. The development of Miskar will multiply by five Tunisia's present production of gas.

It will enable the authorities to meet future needs and allow a gradual switch from oil to gas, in a country where environmental considerations are important, not least because tourism remains its main foreign income earner.

The development of the field coincides with work to double capacity of the Transmed pipeline carrying gas from Algeria to Italy, at a cost of $700m.

The British Gas deal also coincides with the launch of Tunisia's Eighth Economic Development Plan and comes as the authorities seek to speed reforms aimed at liberalising the economy. The tax system has been simplified and the maximum rate on incomes and profits halved to 35 per cent.

Two big moves are planned for next year. Quantitative curbs which have affected imports of goods competing directly with equivalent domestically made items are to be lifted, as are price controls on producers of many items.

These reforms are being supported by a $250m economic support loan from the World Bank and Ecu40m (£28m) from a newly established EC Structural Adjustment Support Fund to help economic reforms in Mediterranean countries.

A number of Tunisian employers have protested at the moves but the government has been emboldened by the better performance of the economy.

After a poor start, receipts from tourism picked up and ended the year at $725m, only one-fifth down on last year. Excellent rainfall and an 8.5 per cent growth in the exports of manufactured goods raised GDP 3.5 per cent and cut the balance of payments deficit by TD100m (£60.8m).

Mexicans resist US on oil

By **Damian Fraser** in Mexico City

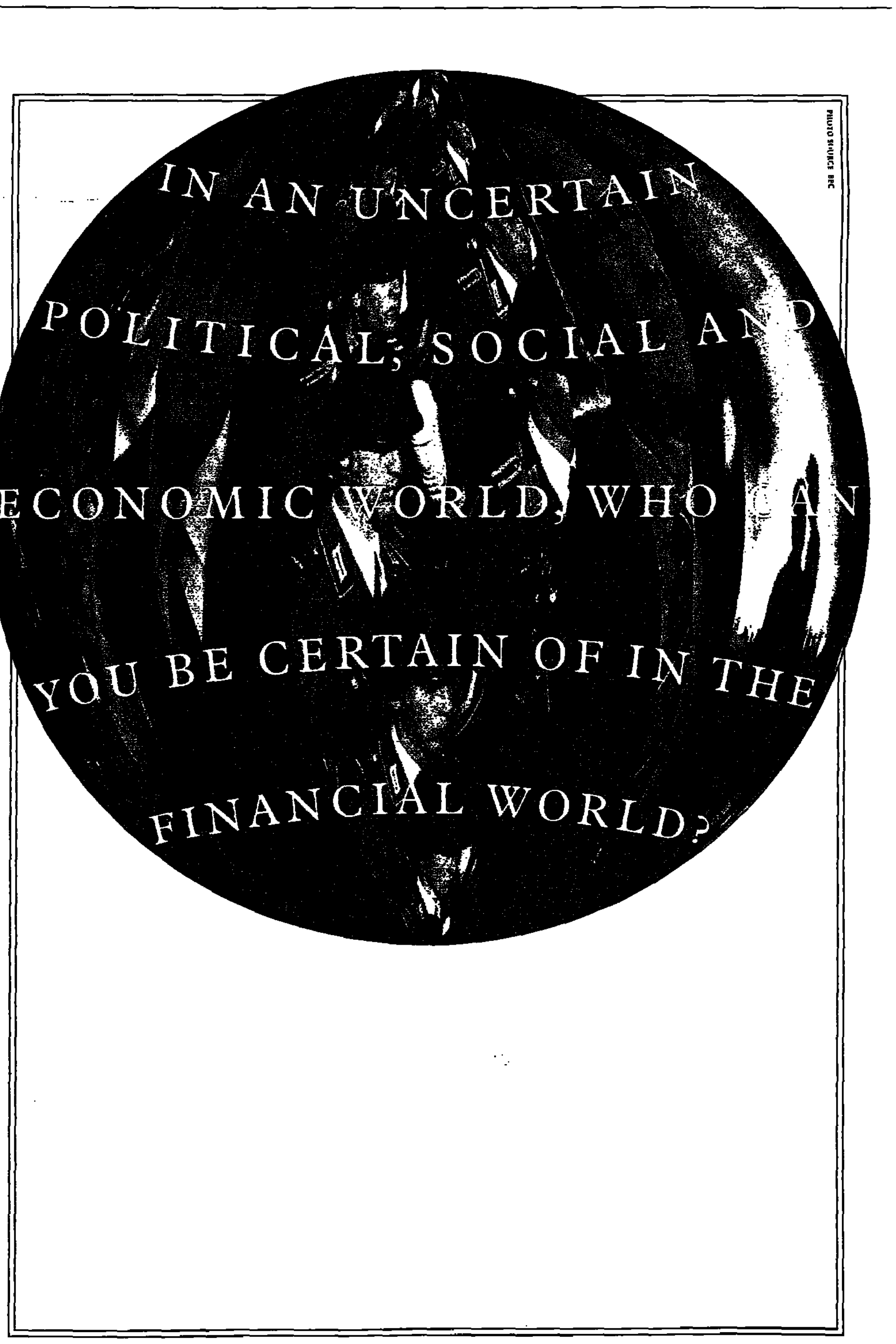
THE Mexican government has again denied it will open up oil to foreign investment as part of the proposed North American Free Trade Agreement, in the face of what appears to be growing US pressure to do just that.

Mr Jaime Serra Puche, Mexico's trade minister, said that Mexico would not violate its constitution concerning oil and that there would be no modifications to laws governing its extraction, refining and commercialisation.

At the weekend meeting between Presidents George Bush and Carlos Salinas, US officials were quoted as saying that, if Mexico wanted a treaty soon, concessions would have to be made by the Mexican government, including in the oil sector.

Mrs Carla Hills, US trade representative, said the Bush administration would seek to open up the Mexican oil sector as much as possible in the free trade negotiations. The US trade representative said that while the administration respected the Mexican constitution, this did not preclude liberalisation of oil in those areas not covered by the constitution.

Article 27 of Mexico's constitution states that Mexico's hydrocarbon resources belong to the nation.



AMERICAN NEWS

Kerrey bid runs into child labour charges

By George Graham in Washington

ONE day after he was acclaimed as the winner in a nationally televised debate between the six main Democratic presidential candidates, Senator Bob Kerrey has run into embarrassment over charges that the restaurant chain he partly owns repeatedly broke child labour laws.

Grandmother's Inc, the restaurant chain that the Nebraska senator founded with his brother-in-law and of which he owns 35 per cent, has been cited by the US Labor Department and fined $64,000 (£35,000) for 116 violations of child labour protection laws.

The alleged violations mostly involve employing children under 16 years old after legal hours: 7pm during the school year or 9pm during holidays.

Senator Kerrey's success with the Grandmother's Skillet restaurants made him a millionaire before he entered politics by winning the governorship of Nebraska in 1982. On the basis of his experience he has often championed small business against excessive regulation.

While Mr Kerrey has no active involvement in the current management of the restaurants, the news of the fine could take some of the gloss off his pleasure at being generally declared the winner of Sunday's raucous debate between the principal Democratic candidates for the presidency.

The debate had given a lift to the Kerrey campaign, which began with high expectations but had failed to gain momentum.

A misjudged joke about lesbians, too, had hurt him, alienating first homosexuals, who disliked the joke, and then homophobes, who felt he apologised too effusively.

US housing starts in line with weaker trend

By Michael Prowse in Washington

A DECLINE in housing starts yesterday provided fresh evidence of US economic weakness.

The Commerce Department said starts fell 2.1 per cent last month to a seasonally adjusted annual rate of 1.06m

The decline follows other signs of renewed economic contraction, including a 0.4 per cent drop in industrial production and a sharp fall in employment last month.

The housing market has been sending contradictory signals in recent months. In October starts jumped 7.1 per cent, raising hopes that the market was recovering, having moved sideways for several months.

This view was reinforced by small increases in home sales.

Last month's figures, however, suggest the housing market has little forward momentum, despite successive cuts in interest rates. Although well above the trough hit in January, starts have risen little since July and were 6 per cent lower last month than in November 1990.

Starts fell 16 per cent in the first 11 months of the year, compared with the same period last year.

Building permits – a guide to future construction trends – also relinquished earlier gains, falling 3 per cent last month, after rising 4.7 per cent in October.

The weakness in starts last month was concentrated in apartment buildings for two or more families. Starts for detached houses rose marginally.

Starts were weak in most regions but the sharpest falls occurred in the mid-west and west.

Agreement gives semi-autonomous region to Inuit people

Canada carves out a new territory

By Robert Gibbens in Montreal

CANADA'S federal government and leaders of the Inuit people have agreed on the country's largest-ever aboriginal land claim settlement in creating the semi-autonomous Nunavut Territory.

The territory will comprise most of northern Canada and the Arctic islands, including known oil and gas and mineral resource areas. The Inuit will be given substantial powers over economic development in a 2m sq km area equal to a fifth of Canada's land mass.

The area has been carved out of the existing Northwest Territories. The NWT's remaining area will be renamed.

The Inuit will have direct ownership of 350,000 sq km and control the mineral rights on 36,000 sq km. They will be paid more than $500m (£277.7m) by Ottawa over 14 years in exchange for giving up claims on most of the new territory, including the main offshore oil and gas exploration areas.

The Inuit have mostly co-operated in Arctic resource development over the past 25 years. This time, they want jobs and economic opportunities guaranteed.

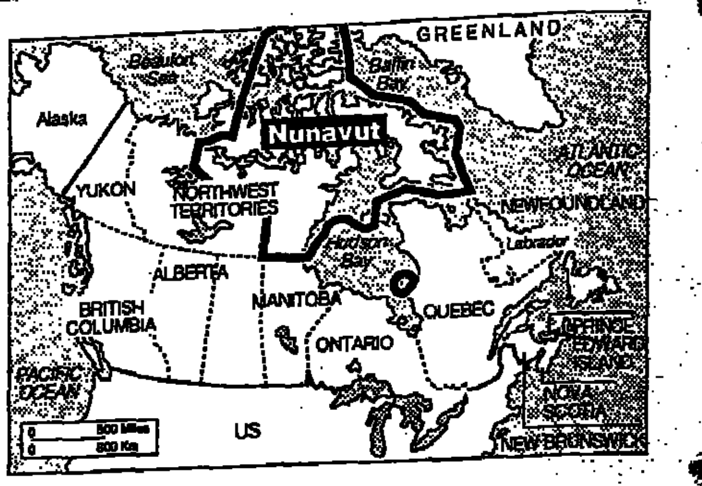
The pact means that most of Nunavut will remain federal crown land, and the Inuit will receive part of any future resource royalties. Three mines operate in Nunavut – one gold and two base metals.

The area excludes the Beaufort Sea above the Mackenzie Delta in the north-west, where most of the oil and gas exploration has taken place. However, it includes Baffin Island and Lancaster Sound, where seismic work has confirmed oil and gas pools.

Nunavut is now mainly populated by 18,000 Inuit. They will vote on the agreement next spring and Ottawa promises legislation next autumn. Nunavut will have an elected assembly and territorial representative government modelled on the Northwest Territories.

The western border will touch Great Bear Lake and territory disputed by the Dene Indians. This group, which succeeded in blocking the Mackenzie Valley pipeline from the north-west to Alberta nearly 20 years ago, is likely to object to the creation of Nunavut.

Ovide Mercredi, grand chief of the Assembly of First Nations, representing 500,000 Indians, says the Inuit are giving too much away, including cultural independence and their inherent right to full self-government.



Trinidad ousts Robinson

By Canute James in Port of Spain

MR Patrick Manning, a 45-year-old geologist, was sworn in yesterday as prime minister of Trinidad and Tobago, following an emphatic victory by his People's National Movement (PNM) party in general elections on Monday.

The PNM, which had governed for 30 years until defeated in 1985, took 21 of the 36 seats at stake and will be opposed in parliament by the United National Congress, led by Mr Basdeo Panday, a former foreign minister, which took 13. The National Alliance for Reconstruction of Mr Arthur Robinson, outgoing prime minister, managed to retain only two seats – Mr Robinson's own and another in Tobago.

The vote represented a rejection of Mr Robinson's handling of the oil-based economy. The NAR imposed an austerity programme four years ago to deal with contraction in the economy caused by a soft oil market. Currency devaluations, a reduction of government expenditure, wage cuts in the state sector and removal of a cost of living allowance for government workers seemed to have eroded support. Mr Manning, energy minister in the former PNM administration, is unlikely to make big economic policy changes.

Sendero turns Lima slum into Maoist zone

Poverty and despair provide urban breeding ground for guerrillas, writes Sally Bowen

IN THE shanty-town of Raucana, six miles to the east of metropolitan Lima, they deliver their own babies and administer their own, often, rough justice. There is no state presence, save a military encampment to maintain order. The settlers in this microcosm of urban living for Peru's poor have dug their own wells, installed the posts and cables for electricity and built communal soup kitchens to feed themselves.

But there is one sinister difference about Raucana. It is founded and organised by militants of the fundamentalist Maoist guerrilla group, Sendero Luminoso (Shining Path). State intelligence headquarters contains a scale model of the community, pinpointing locations of leaders' houses.

For 11 years, Sendero has based itself in Peru's rugged and inhospitable mountains. Fanning out from Ayacucho, where former philosophy professor Mr Abimael Guzman founded the movement, it has forged close contacts of mutual interest with drugs traffickers in the coca-growing Huallaga and Apurimac valleys and penetrated almost every area of the Andes and jungle.

Forays into coastal cities were traditionally short and brutal. As the state's intelligence machine improved in the late '80s, it became dangerous for terrorists to stay in the capital more than a few days. Selective assassinations and quick withdrawals became the norm.

But Sendero has always thrived where there is hunger and despair. With the tough economic adjustment programme applied by the government of President Alberto Fujimori, half of Peru's 22m people now live in "extreme poverty", according to the United Nations.

Fujimori: pursuing tough adjustment programme

The principal bulwark against the Sendero expansion in Lima is popular organisation. In every shanty-town, women club together to buy in bulk and cook expensive communal meals; parents' clubs distribute food donated by international organisations; and long-running government programmes such as the daily "Glass of Milk" for schoolchildren help blunt the edge of hunger.

Sendero has increasingly targeted these popular organisations. Community leaders have been assassinated and food warehouses dynamited. Local leaders and parish priests regularly receive death threats.

"Sendero has always had a great interest in Lima," says Mr Gustavo Gorriti, leading author on Sendero. "That intensified around 1989 with greater infiltration of unions. Now they are attempting to take over popular organisations – they co-opt, control, coerce and threaten."

But the Raucana strategy is "both new and brilliantly conceived", according to one counter-insurgency expert. Mr Gorriti calls it "an interesting laboratory where Sendero can try out their capacity for controlling and co-ordinating larger groups of people".

None of Raucana's 1,000-odd settlers openly admits to being a Sendero sympathiser. Most disclaim any interest in a political system widely perceived by Peruvians as discredited.

Mr Felix Condor, Raucana's 27-year-old secretary-general, is more emphatic. "We don't permit political parties here," he says. "The only party is the people and the only way ahead is through iron discipline".

Both the rhetoric and organisation betray Raucana's affiliation, however. Discipline follows classic Sendero lines as practised for years in Andean communities in Peru's "red zones". The "thousand ears and eyes" of the party are ever watchful. Miscreants are denounced, tried in "popular courts" and publicly punished.

The UN estimates that half Peru's 22m people live in 'extreme poverty'

In Raucana, this means democratically administered lashes, with each of the seven sectors participating. The offender is then paraded round the settlement with a placard detailing his crime.

Mr Condor claims that such methods have in effect eliminated crime from Raucana: "We've got rid of prostitutes, homosexuals, drug-dealers and petty thieves," he claims. "Through our self-criticism sessions we attempt to correct anything we find that is bad."

In little more than two years, the settlement has advanced quickly. The seven sectors each have a neatly laid-out square with a 60 ft well, a communal restaurant and public toilets. There is no rubbish, no graffiti. Unemployed men make mud bricks from a small pit, while all those who work outside the walled community contribute to feeding the women and children who stay at home "to guard our land".

Defence of the land – a former stud farm legally owned by a wealthy Italian immigrant – has powerfully cemented Raucana's population. Two police attempts to dislodge squatters resulted in injuries, one "glorious martyr" and victory for Raucana. "We've mostly done military service," explained Mr Condor, "so we used army methods". Settlers made molotov cocktails and dug trenches to impede the approach of armoured cars. Watchtowers give the community a beleaguered air.

Now the common enemy is the army of occupation. Camped in the former stables, some 250 soldiers theoretically keep the peace. Government-inspired "civic action" schemes, basically periodic handouts of food donations by the army, are scorned by Raucana's militants – though most settlers will take what they can get. "And it's certainly a better strategy than house-to-house searches and arbitrary detentions," says one human rights worker.

Raucana underlines the craving of poor Peruvians for the order, organisations and basic services that for decades the state has dismally failed to provide. The challenge for the Peruvian government is to satisfy that craving before the subversives do.

Lenders unveil scheme to help home owners

By David Barchard and Philip Stephens

BRITAIN'S top two mortgage lenders yesterday moved to defuse a growing confrontation with the government over the rising number of repossessed homes by unveiling schemes to allow some customers who cannot service their mortgages to stay in their homes.

The moves came as the big lenders braced themselves for today's second meeting with the government in less than a week to discuss the repossessions crisis which ministers regard as a threat to Tory prospects in an election.

Halifax, the largest UK mortgage lender with 17 per cent of the market last year, said it had pledged £200m in low cost funds to help mortgage rescue schemes by housing associations and local authorities.

Halifax will make its funds available at under eight per cent interest to housing associations who will buy up homes and rent them to their former owners.

In a separate move, Abbey National, the second largest lender, said it will spend £60m on buying up properties from customers facing payment problems but who are still employed and so cannot benefit from payment of their mortgage interest by the Department of Social Security (DSS).

They will then stay in their homes by paying rent instead of mortgage interest. Both schemes are targetted at low income borrowers who are still in work and so are not eligible for the proposed direct payment by the DSS.

In the House of Commons the housing crisis provoked clashes between Mr John Major and opposition leaders in spite of the prime minister's insistence that the government was helping to stem the tide of repossessions.

Facing charges from Mr Neil Kinnock, the Labour leader, that his policies were responsible for the crisis, Mr Major appeared to acknowledge that some lenders may reject the government's call for a moratorium on repossessions.

In a reference to today's talks with the lenders the prime minister said he expected "sensible" lenders to play their part in assisting to those facing repossession.

FT staff authorise strike action on RSI

By Lisa Wood, Labour Staff

JOURNALISTS at the Financial Times yesterday voted to authorise strike action over plans by management to consider nine members of the staff for ill-health retirement.

The journalists, all members of the National Union of Journalists (NUJ), are protesting at the announcement by management last week that the nine, long-term sufferers of repetitive strain injury (RSI), would probably be retired on health grounds. The RSI and the union have complained that the offer of disability pensions, ranging up to two thirds of current salary, is compulsory.

Industrial action was held off last night after a mass meeting of about 200 journalists agreed to their representatives holding further talks with the management. Journalists had voted by 173 to 67 to take strike action and 217 to 22 to take industrial action, excluding strike action.

Mr Alan Pike, father of the NUJ chapel (office branch) told the meeting: "We do not believe that there is anywhere near enough on offer at the moment from management to resolve this issue."

The nine individuals wanted a choice of options said Mr Pike. These would include being allowed to stay on the newspaper longer to see if they recovered and an improved financial package for those who might elect to leave.

The Financial Times management said that it did not want to be in conflict with its staff. It wanted to hold discussions over the next four weeks with both the individuals and their representatives on the terms although it stressed that scope for improvement was bound to be limited.

UK deficit raises hopes on levels of borrowing

By Peter Norman, Economics Correspondent

BRITAIN'S public sector finances recorded a surprisingly low deficit of around £400m last month, raising hopes that the government might be able to hold its 1991-92 borrowing requirement at the £10.5bn level forecast in last month's Autumn Statement.

But yesterday's news that November's public sector borrowing requirement (PSBR) was sharply lower than the £2bn anticipated by financial markets largely reflected special factors, such as a higher than expected inflow of tobacco taxes and lower outgoings for European Community expenditure. As a result, the figures had little impact on markets.

The Central Statistical Office (CSO) reported that the November PSBR totalled £412m. The figure, which is not seasonally adjusted, followed a public sector debt repayment or surplus of £2bn in October and compared with a £1.3bn PSBR in November last year.

Britain therefore recorded a deficit of £9.2bn in the first eight months of the current financial year compared with £4.3bn PSBR in the same period of 1990-91.

The Treasury moved swiftly to dispel any belief that last month's smaller than expected deficit represented an underlying improvement in the nation's finances.

Officials explained that government income from tobacco duty was some £500m higher than anticipated as traders had taken goods out of bond in anticipation of price increases.

At the same time, net departmental outlays for the EC were some £500m lower than expected, reflecting a technical adjustment to the ebb and flow of contributions to the community.

Analysts said last month's figures hinted at some improvement in parts of the public sector's finances. In particular, a year-on-year turnround in local authority finances from a £75m borrowing requirement in November 1990 to a £454m surplus last month suggested that this part of the PSBR may be recovering from the "front end loading" of borrowing by local authorities earlier in the financial year.

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PORT PRIVATISATION

Sell-off threatens to backfire on government

By Richard Tomkins, Transport Correspondent

THE government's attempt to privatise the first of 15 trust ports yesterday threatened to turn into an embarrassing political debacle.

Unsuccessful bidders for the port of Tees & Hartlepool in north east England reacted furiously to Monday night's announcement that the port would be sold to Teesside Holdings, a consortium led by Powell Duffryn, the distribution and engineering group.

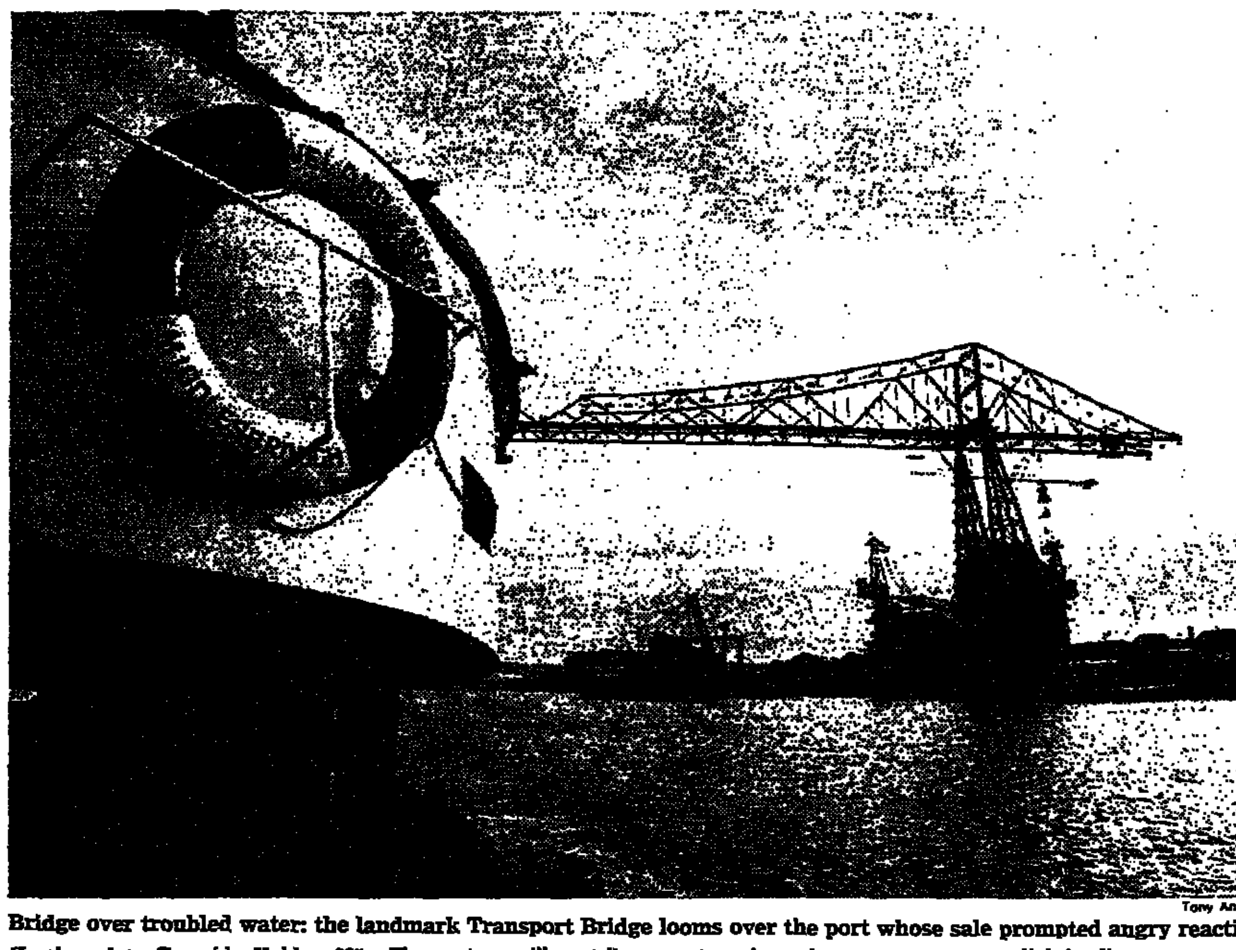
They demanded to know why the consortium had triumphed not only over a higher bidder but also over the management-employee buy-out team, the strongly favoured candidate.

Further confusion emerged as Tees & Hartlepool Port Authority, which conducted the sale, seemed unable to agree with the Department of Transport whether a final decision on the sale had been taken.

The port authority's legal advisers said ministers had still not made their decision, but the transport department said it was subject only to formal parliamentary approval of an order providing for the government to claw back a portion of any future property profits.

Meanwhile Mr Stuart Bell, Labour MP for Middlesbrough, called for an emergency Commons debate on the sale; six Cleveland MPs demanded a meeting with Mr Malcolm Rifkind, the transport secretary in an attempt to overturn it; Maritime Transport Services, the highest (but unsuccessful) bidder called for a meeting with Peat Marwick, the sale's auditors; and Mr Patrick McLoughlin, the transport minister responsible for shipping, agreed to meet a delegation of protestors drawn from the port's middle management.

The row has been triggered by the government's decision to approve the sale of Tees & Hartlepool to Teesside Holdings, a three-way venture between Powell Duffryn, the private Humberside Holdings and 3i, the venture capital group.



Tony Andrews

Bridge over troubled water: the landmark Transport Bridge looms over the port whose sale prompted angry reactions

Powell Duffryn, which has its roots in the South Wales coal mines, sees the port venture as part of its effort to take capital out of ships and to develop land-based services.

Its involvement in Teesside Holdings prompted an 8p rise in the share price yesterday to 285p. The venture will contribute to its storage and shipping division, which accounts for about 15 per cent of group turnover.

Teesside Holdings' bid of £180m was only the second highest for the port. The highest bid, believed to be for £210m, came from Maritime Transport Services, operator of the Thamesport container terminal on the Isle of Grain, Kent. The two other bidders - Ocean Group and the management-employee buy-out team - are believed to have come in at about £150m.

The government had indicated that preference would be given to management-employee buy-out teams when privatising the trust ports, and several other ports have launched privatisation plans on this basis.

The Department of Transport said yesterday that preference for a buy-out team would only prevail if bids were equal or slightly disparate on other merits.

The Tees & Hartlepool Port Authority said the Teeside Holdings bid was "the most consistent with the authority's privatisation objectives." But Mr Stuart Bell MP has alleged that Powell Duffryn associated companies in Immingham and Grimsby avoided the need to make redundancy payments during the abolition of the dock labour scheme by going into liquidation.

Labour targets London as vital election battleground

By Ivo Dawney, Political Correspondent

BRITAIN'S opposition Labour party has made up a 15 percentage point poll deficit in London since the 1987 general election and is now running neck and neck with the Tories, Mr Jack Cunningham, the party's campaigns' co-ordinator, told a conference of prospective candidates yesterday.

Warning that the coming election outcome in London was "vital" to the party's chances nationally, he said a new opinion poll showed the two parties were now level on 44 points each.

The survey, conducted for the Labour-dominated Association of London Authorities from a sample of 2,000 voters in November, compared favourably for the party with an October poll giving the Tories 46 points against Labour's 40.

It also contrasts strongly with Tory claims this week that their private polling showed Labour still trailing, with electors' still expressing distrust of the so-called "loony left" fringe that widely influenced public perceptions of the party in the 1980s.

The Conservative party claims it is ahead in the capital, citing a Gallup poll last month which showed the Tories to be 4 per cent ahead in London. The war of words comes as the parties are now sharply stepping up their campaigning in London – a key battleground in next year's election.

At Labour's Walworth road headquarters, meanwhile, it is privately accepted that additional initiatives will be needed to raise Labour's current representation of 24 of the 84 Greater London area constituencies to the 50 thought necessary to be sure of an overall majority in Parliament.

Yesterday's half-day seminar was just the latest move to build on those developments with frontbench spokesmen targetting transport, environmental policies, public services and housing as areas where voters are warming to Labour.

In a rallying address to the meeting, Mr Neil Kinnock, the party leader, also paid close attention to the recent controversy over evictions from homes by mortgage lenders. He attacked the government's efforts to "patch together" a response with building societies today as a tragic shambles.

Next month, senior party officials are planning meetings aimed at fleshing out the detail of a plan to create an elected Greater London Authority to take strategic decisions for the capital. The proposals are due to be launched in February.

Military women win pregnancy test case

By Our Labour Staff

THE GOVERNMENT agreed in the High Court yesterday to pay £25,000 compensation to two military nurses dismissed after becoming pregnant.

Mr Tom King, defence secretary, agreed that the women were unlawfully sacked and, for the first time, conceded that service personnel have the right to take employment grievances to industrial tribunals like any civilian.

The Equal Opportunities Commission, which backed the women's case, said the government's concession meant "potentially hundreds, if not thousands," of pregnant women dismissed from the armed services could now bring similar compensation claims.

A former sergeant with Princess Mary's RAF nursing service, receives £15,000, and a former corporal in Queen Alexander Royal Army Nursing Corps, £10,000.

The awards came at the end of a sex discrimination claim after counsel for the defence secretary conceded both women were unlawfully dismissed for being pregnant under an employment policy, now abandoned, which was in breach of the 1975 Sex Discrimination Act and the EC Equal Treatment Directive.

Mr Archie Hamilton, the armed forces minister, announced in Parliament on Monday that new maternity leave procedures were now being introduced for women.

A Ministry of Defence spokesman said after the case: "Applications for compensation from ex-servicewomen who were compulsorily discharged between August 1978 and August 1990 will be considered on their merits."

In August 1990, the Government abandoned its old policy of dismissing pregnant women and brought in its interim measure of allowing limited unpaid maternity leave which was in force until yesterday, when paid leave was introduced.

The spokesman said servicewomen would not be able to claim compensation for being denied paid maternity leave between August 1990 and yesterday.

UK split over EC funds for mining rejuvenation

By Alison Smith in London and David Gardner in Brussels

A SPLIT by the cabinet over the government's handling of £109m in EC funds which is blocking the release of the money intended to help coalfield communities was revealed yesterday by Mr Gordon Brown, Labour's trade spokesman.

Brown: seeking climbdown

He published a leaked draft letter from Mr Michael Heseltine, the environment secretary, which says the arrangements for dealing with the money are "no longer tenable".

The letter also warns that the arrangements jeopardise not only the money aimed at regenerating former mining areas, but also future regional development cash totalling some £380m a year of European funds to be given to regions in England, Scotland and Wales.

Mr Bruce Millan, the commissioner for regional policy, said last week that the total EC funds for the UK, excluding Northern Ireland in 1992, amounting perhaps to £700m-£800m "could all be in jeopardy" over the additionality rules.

At present, the UK government includes the regional development fund money in setting public expenditure programmes, but lacks a mechanism for channeling the money to the local authorities directly involved. It therefore falls foul of the EC's rules which say the money must clearly be over and above what the domestic government would spend.

Mr Heseltine is to meet Mr David Mellor, the Treasury chief secretary, today to discuss EC receipts, with the intention of agreeing a concerted government approach to the Commission. The department of the environment said it was in close touch with the Commission on the matter, which was under review. It hoped that a satisfactory outcome could be agreed.

Ministers have argued that Mr Millan is behaving unreasonably in delaying the money.

The draft, which Mr Brown said formed the basis of a memorandum from the three cabinet ministers to Mr Norman Lamont, the chancellor of the exchequer, suggested that the most complete solution would be to remove these European funds from the public expenditure planning total.

It says the regional development fund money should be politically beneficial to the government, but comments: "Instead it has become a constant source of friction and recrimination both from the EC and from local authorities and MPs. We cannot afford such an "own goal" in areas which are politically important to us."

Mr Brown demanded "an immediate climbdown" from the government and "an end to their spiteful campaign against Britain's mining communities in every region can be guaranteed long-delayed millions".

Government rejects Brussels criticism on building projects

By John Hunt, Environment Correspondent

THE GOVERNMENT yesterday rejected an accusation by the EC Commission that it had failed to carry out proper environmental impact assessments before going ahead with seven major construction projects in the UK.

Mr Michael Heseltine, environment secretary, sent a letter to Mr Carlo Ripa di Meana, EC environment commissioner, saying Britain intends to press ahead with the projects which include the Channel tunnel rail link and the East Thames river crossing.

By doing so the UK risks being taken before the European Court. Mr Ripa di Meana had written to the British government asking that work be stopped on the seven schemes before irreparable environmental damage was done.

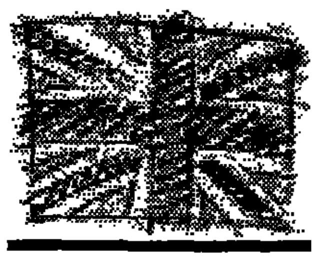
In an official reply yesterday Mr Heseltine argued Britain was not in breach of any EC environmental directives as its planning system fully took into account an assessment of the impact any project might have on the environment.

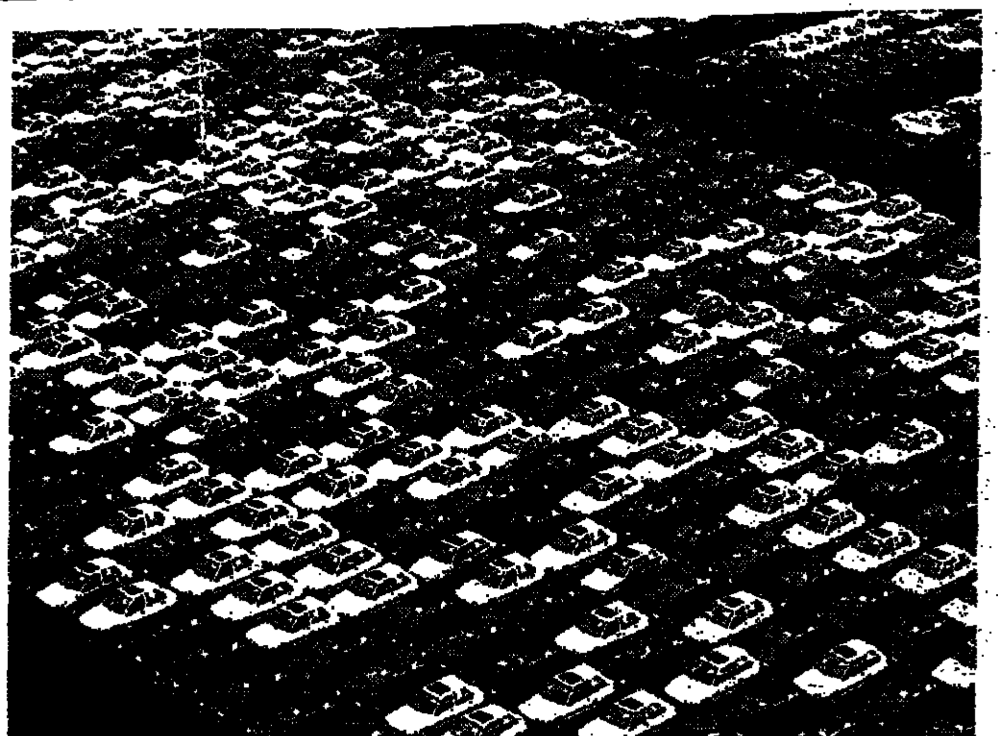
If he is not happy with this Mr Ripa di Meana could issue a reasoned opinion on the case which is the first step in taking the UK to the European Court.

Several of the proposed schemes involve destruction of areas of special scientific interest or natural beauty. The southern approach to the east Thames river crossing would pass through 8000-year-old Oxleas Wood. The objection to the Channel link was that there was no environmental impact assessment on the King's Cross passenger terminal in north London.

The others are: the M3 section near Winchester which would run across Twyford Down; a BP site near Falkirk Scotland; an incinerator at South Warwick hospital; a road link between Hampton Wick, east London, and the M11 motorway; a soft drinks manufacturing plant – a joint venture between Coca-Cola and Schweppes – at Northampton.

BRITAIN IN BRIEF





Battle-ready: Nissan Motor, the Japanese carmaker, is massing thousands of cars at its Sunderland plant in north east England ready for a New Year assault on the depressed British market after a year which saw demand for all new cars in the UK fall by a fifth and Nissan car sales drop by 40 per cent. The Japanese carmaker will also be doing battle with Nissan UK, the independent company controlled by Mr Octav Botnar, whose 21-year distribution contract ends on December 31 after 12 months of bitter legal conflict.

Steel industry fails to win tax incentives

Mr John Major, the prime minister, has dashed hopes within the steel construction industry of special tax incentives for export work or for lifting the burden of value added tax (VAT). In a letter this week responding to a number of requests from the British Constructional Steelwork Association, Mr Major said he could not hold out any hope of new VAT relief for the industry, because of European Community obligations under the Sixth VAT Directive. The association represents 80 per cent of the UK steel construction industry, which is the biggest in Europe.

Du Pont plans withdrawn

Du Pont, the US chemical engineering giant, has withdrawn plans to construct a toxic waste incinerator for the whole of Ireland in Londonderry. Management said the scheme was not viable in the current economic climate and, while the plan for a national incinerator has been shelved, the company would be proceeding with proposals for a smaller incinerator at its Maydown plant to burn its own waste.

Transmanche seeks ruling

Transmanche Link, the consortium of construction companies building the Channel tunnel will today ask the Court of Appeal to quash last month's High Court ruling which effectively prevented it stopping work on the project in a dispute over costs. The five British and five French building groups will be appealing against the ruling last month which dismissed their case against an injunction sought by Eurotunnel the Channel tunnel operator, to prevent the contractors halting work in a dispute over the cost of fitting out the tunnel.

BA cabin crew call meeting

British Airways said it did not expect its flights to be disrupted this morning in spite of plans for mass meetings by Bassa, a union representing cabin crew. The meetings, over management plans to change working patterns, are due to be held in airports throughout the country, including Heathrow and Gatwick, between 8am and 10am. BA said only 2,070 of its 10,000 cabin crew had voted in favour of the meetings being held.

CBI promotes environment

More than 3,000 UK companies have been invited by the Confederation of British Industry to join a voluntary initiative intended to promote better environmental standards throughout industry. The environmental business forum, first announced at the CBI's annual conference last month, is to begin work in January. Companies who join will be expected to demonstrate their support for improving the environment by implementing a series of targets.

Production of beer falls

UK beer production in October was 3.4m barrels, an increase of 2.5 per cent on the same month last year, but despite indications of stocking up for Christmas, the underlying market trend remained depressed, said the Brewers' Society.

Spending cuts are postponed

Western Isles council, which lost £23m in the collapse of BCCI, has voted to postpone decisions on cutting its spending and raising its poll tax to make good the losses. Late on Monday night a special committee of inquiry ordered the immediate dismissal of Mr George Macleod, chief executive, and Mr Donald Macleod, director of finance, holding them primarily responsible for the loss of money. Mr George Macleod, 49, who along with Mr Donald Macleod, 50, has been suspended from duty on full pay since September, indicated he would appeal.

Nissan Motor takes advice

Nissan Motor, the Japanese car maker, said it was taking legal advice over the move by Nissan UK, its privately-owned UK vehicle importer/distributor, to block a series of payments to it totalling around £10m for vehicles already delivered from Japan. Nissan UK confirmed that it had won a court order in Switzerland preventing banks from making the payments on letters of credit for cars which have already been delivered to it.

£250m scheme for midlands

Rosehaugh, the financially troubled property group, has lodged with Birmingham City Council an application to build a £250m development of shops, offices and leisure facilities on a site of 15 acres next to the new International Convention Centre and National Indoor Arena. The development would complement the Centre and Arena.

FT LAW REPORTS

Oil tax allowance based on total receipt

BP OIL DEVELOPMENT LTD v INLAND REVENUE COMMISSIONERS
House of Lords (Lord Keith of Kinkel, Lord Ackner, Lord Goff of Chieveley, Lord Jauncey of Tullichettle, and Lord Browne-Wilkinson): December 12 1991

TARIFF receipts allowance for petroleum revenue tax purposes applies to the total consideration received by a participator in an oil field for use of its assets or facilities by another field during the chargeable period, and not to separate receipts for each asset or facility made available to the user.

The House of Lords so held when dismissing an appeal by BP Oil Development Ltd from a Court of Appeal decision upholding the Inland Revenue's method of calculating tariff receipts allowance for petroleum revenue tax (PRT) purposes.

LORD KEITH said that BP owned the Forties oil field in the North Sea about 100 miles east of the Scottish coast.

The assets of that field included a pipeline which ran *from the field to the coast* at Cruden Bay and then across country to the Kerse of Kinneil.

Some 70 miles north of the Forties field lay the Brae Field owned by the Marathon Oil group. A pipeline owned by Marathon ran from that field to Forties, where it was connected to BP's pipeline to Scotland.

On August 15, 1985, BP agreed to transport and process pipeline liquids from Marathon's Brae Field.

The facilities to be provided by BP fell into three parts:

(i) Transportation of pipeline liquids from Forties to the Kerse of Kinneil; their separation into crude oil and raw gas; temporary storage; and delivery to a shipping terminal. The consideration payable for those operations was 50 pence per barrel.

(ii) Processing raw gas to produce dry gas, propane, butane and C5 condensate; temporary storage; and delivery to Grangemouth Dock or other delivery points. The consideration for those gas operations was £14.50 per tonne of raw gas.

(iii) Further processing of dry gas and propane (known as "sweetening"), at 10 pence per barrel of the original pipeline liquids.

Section 6(1) of the Oil Taxation Act 1983 provided that in computing assessable profit or allowable loss accruing to a participator from an oil field in any chargeable period ending after June 30 1982, the positive amounts (price received for oil won) included his "tariff receipts" attributable to that field.

By subsection (2) the tariff receipts were the aggregate of the amount of consideration received by the participator in respect of "(a) the use of a qualifying asset; or (b) the provision of services or other business facilities".

The pipeline by which the Brae Field oil and gas were *transported* to the *Kerse of* Kinneil, and the storage and processing facilities used in connection with that oil and gas, were qualifying assets (see section 8(1)).

So payments received by BP from Marathon were tariff receipts, to be included in BP's positive amounts in respect of the Forties Field.

By section 9(1) tariff receipts allowance was deductible for tax purposes from "an amount of qualifying tariff receipts" received by a participator in an oil field ("the principal field") from a user field.

By section 9(6)(a) "qualifying tariff receipts" meant receipts attributable to "the use of any asset for extracting, transporting, initially treating or initially storing oil won otherwise than from the principal field", or to the provision of "services or other business facilities" in connection with that use.

By section 9(6)(b) any reference to "qualifying tariff receipts" received from a user field was a reference to receipts from a participator in the user field "in respect of the use of an asset" for extracting etc, or the provision of services or facilities in connection with that use.

Paragraph 1(2) of Schedule 3 to the Act provided that in relation to a user field, reference to the oil to which any qualifying tariff receipts related, was a reference to the oil won from that user field, extracted, transported, initially treated or initially stored "by means of the asset".

It was common ground that all the *sums* received by BP from Marathon during the relevant periods in respect of use of facilities, were qualifying tariff receipts within the meaning of section 9(6).

During the six months up to December 31 1983, the total consideration for all three facilities provided by BP to Marathon came to £8.6m

Applying a statutory formula, *the Revenue assessed BP* to PRT on the basis of a total consideration of £8.6m, resulting in chargeable receipts of £5.4m.

BP appealed to the special commissioner against the assessment to PRT, claiming it was entitled to separate tariff receipts allowance in respect of each of the qualifying assets which it made available for use by the Brae Field.

On BP's basis, the chargeable amount would be £3.9m

The special commissioner rejected BP's contention. BP appealed. Mr Justice Vinelott reversed the special commissioner. The Court of Appeal reversed Mr Justice Vinelott. BP now appealed.

The argument for BP depended on reading "asset" in section 9(6)(a) and (b), and in paragraph 1(2) of Schedule 3, as restricted to the singular, and not as including the plural as it would normally do under the Interpretation Act.

It was contended that each particular amount of qualifying tariff receipts derived from use of a particular asset for any of the specified purposes, ie extracting, transporting, initially treating or initially storing oil won from the user field, *was entitled to a separate tariff* receipts allowance.

It was said anomolies would arise from a contrary construction.

One of the supposed anomalies was that if a contract for use of a particular asset used up the whole of the tariff receipts allowance, the participator would be liable to PRT *exceeding* the total amount of tariff receipts under a second contract for use of a different asset.

It was said that would frustrate the Act's purpose of *encouraging participators in* established oilfields to make facilities available to new and more outlying fields.

On a true construction of the relevant provisions of the Act *it was plain that its intention* was to make only one tariff receipts allowance available to a participator in a principal field in respect of use of its assets for the specified purposes.

In the first place, section 6 required the whole of the tariff receipts to be included in a participator's positive amounts for the purpose of computing his assessable profit or allowable loss.

Section 9(1) referred to the "amount of qualifying tariff receipts" from a user field to be taken into account.

That must be the whole amount of the qualifying tariff receipts, not particular parts of them derived from use of a particular qualifying asset.

Schedule 3 dealt with the method of determining the cash equivalent of the tariff receipts allowance. It was apparent that different assets were likely to be used in carrying out each of the four specified operations ("extracted, transported, initially treated, initially stored").

So quite apart from the Interpretation Act, it was apparent that "asset" was to be read as impliedly including "or assets", thus indicating that the qualifying tariff receipts might be referable not to one asset only, but to a group of assets.

The amount of qualifying tariff receipts to be reduced under section 9(1) was the whole of the qualifying tariff receipts - not particular discrete amounts of qualifying tariff receipts derived from the use of particular assets.

The Inland Revenue's method of calculating the cash equivalent of the tariff receipts allowance was correct.

There was no ambiguity in *the provisions* to warrant construing them to give fuller effect to what BP claimed was the purpose of tariff receipts allowance, namely encouraging participators in established *fields to make their facilities* available to new fields.

Butthe question at issue related to the allowance Parliament had actually thought fit to grant. That could be ascertained with reasonable certainty from the language used in the Act.

The appeal was dismissed. Lord Ackner, Lord Goff and Lord Browne-Wilkinson agreed. Lord Jauncey gave a concurring judgment.

For BP: Peter Whiteman QC and Marion Simmons (BP solicitor)

For the Revenue: Alan Moses QC and Launcelot Henderson (Inland Revenue solicitor)

Rachel Davies
Barrister

MANAGEMENT

Company doctor offers prescription

By James Buxton

Sir Lewis Robertson's opinion on what causes corporate disasters is succinct: feeble management.

For Sir Lewis, the 69-year-old Scottish company doctor, other reasons won't wash. The workforce? Not an appreciable cause of trouble. Recession? Tends to expose companies that already have weaknesses. Bad luck? Good managers ought to be prepared for it.

Sir Lewis last week presented his analysis of corporate failure at a lecture in Glasgow. He is now on his seventh corporate rescue in a decade, that of the hotels group Stakis where he had to sack the chief executive Andros Stakis, son of the founder Sir Reo.

His other rescues of medium-sized quoted companies include Borthwicks, the meat wholesaler, also with a family involvement; Lilley, the Scottish construction company which almost collapsed in 1986, and Havelock Europa, the shopfitting company which lurched badly in 1989, causing institutions to insist that Robertson move in.

First in his list of corporate defects came:

- Financial controls: had to be changed in all but one of his rescues because they were either too weak, or ridiculously over-detailed, or, if adequate, had become discredited because the board was not paying a blind bit of attention to them.
- Weak finance director: to be effective he must be his own man, stand firm against too much corner cutting and quench too much optimism.
- Growth in size but not in competence: the men who successfully ran one foundry may be out of their depth running 10, or handling a conglomerate of separate operations.
- Ill-judged acquisitions: "it really and truly isn't possible to overdo the due diligence of studying a company before it is acquired". The next most common error is to sink back and fondly imagine that nothing can go wrong and that the new owners have effective control.
- Attention to markets, products and innovation: frequently lacking: often a company keeps hoping that its traditional customers are merely flirting with a new supplier or technology and will come back: "they never do".
- Loose financing: such as snatching at short-term borrowing opportunities, multiplying banking relationships for no good reason, and careless acceptance of covenants (like those on interest cover). When the chips are down, multi-bank relationships expose companies to the demands of the least accommodating.
- Lender softness: in good times the banks don't take enough trouble to examine the borrower in depth, or to find out what other borrowings may later turn out to stand alongside them and which rely on the same security.
- Shirking decisions: it is striking how thorough, even inventive, weak management can be in devising excuses for postponing unpalatable decisions.
- Combined chairman and chief executive: it is far better to separate the functions and go for balance and complementarity.
- Weak board: boards and their composition "are far more important than I believed when I was a bright-eyed and bushy-tailed young chief executive".
- Family relationships: "Four of my seven rescues have reflected either the internal problems of owning or formerly owning families, or the difficulty of finding the right way of achieving the transition from family to professional management".
- Shareholder inattention: "the larger institutional shareholders bear a responsibility which they too often do not bestir themselves to discharge." Shareholders should be more interventionist.

A corporate rescuer must have enough experience to recognise the underlying patterns, enough credibility to attract support, and good advisers, said Sir Lewis. He will also need "a strong will and unshakeable self-confidence".

Louise Kehoe examines IBM's plan to transform its world-wide operations

Off into the Big Blue yonder

Ray AbuZayyad represents the new face of IBM. As general manager of IBM's newly-formed data storage products business group, he is in the forefront of the computer giant's plans to transform itself into a "commonwealth" of increasingly independent business units.

Earlier this month, AbuZayyad was handed world-wide responsibility for IBM's $11bn (£6.1bn) disk drive, tape and optical data storage product business.

He is charged with shaping this technology development and manufacturing division into a company that can compete with any other disk drive maker. That will entail speeding up product development and expanding market opportunities, as well as ensuring that Big Blue remains ahead in data storage technology.

The IBM storage products group is a microcosm of the changes that have been set in motion throughout the giant computer company.

The data storage products group is on a fast track. It is leading IBM's charge toward decentralised management for two reasons. Data storage is an easily defined segment of the computer systems market, with technologies that span a wide range of products – from miniature disk drives for portable personal computers to high capacity data storage units for mainframes. More important, however, is the independent spirit of this West Coast group.

The disk drive operation "has long had a strong-minded, entrepreneurial bent", says Jack Kuehler, IBM president, who himself began his IBM career at the company's disk drive development and manufacturing facility in San Jose.

"They are less willing to accept top down management" than other parts of the company, Kuehler says, acknowledging that not all of IBM's corporate executives at its distant Armonk, New York, headquarters have appreciated the independent spirit of the Californian group in the past.

Recently, for example, the data storage products group has led IBM's efforts to expand its third-party OEM (original equipment manufacturer) sales. As well as supplying each of IBM's computer product groups with disk drives, the group last year rang up about $200m in non-IBM sales.

With his new found freedom, AbuZayyad aims to expand aggressively these "outside" sales to $1bn by 1993, or one third of IBM's total projected sales.

In the past, however, IBM's mainframe computer systems group has frowned upon sales to competitors.

"Now we have declared to IBM and to the world that we are ready to do business as a company serving IBM systems platforms and also those outside IBM," says AbuZayyad. That may well involve selling disk drives to IBM competitors, he acknowledges.

This readiness to seize new opportunities, even if it means "rocking the boat", is hardly typical of IBM managers. In the past, IBM's culture has encouraged uniformity; hence the myth that IBMers always wear dark suits and white shirts.

Although IBM has long recognised the need to give its technology development groups some creative freedom, the scope for individual initiative has traditionally been much narrower in other parts of the company.

Other segments of IBM have been slower to embrace prior moves toward devolving decision-making. Within the storage products division, however, AbuZayyad has created specialist groups – each responsible for a different aspect of data storage technology and product development. They are "a group of technology specialists eager to demonstrate that they can also become businessmen", he says.

The formation of the storage products business unit clearly illustrates the changing relationships among IBM's product groups, but it also highlights the potential for conflicts.

Product group managers will now be required to make their own decisions on issues such as product development and manufacturing priorities and pricing. No longer will development of a new disk drive be delayed if one of IBM's computer product groups is running behind schedule. "If they are not ready then I will sell to somebody else first," says AbuZayyad.

Another element of the IBM reorganisation that could be the cause of resentment is the realignment of management responsibility for many of the company's plants outside the US. AbuZayyad and his team in San Jose are now responsible, for example, for data storage product factories and development facilities in Britain, Japan, Germany, Thailand and Argentina.

AbuZayyad is confident that he will continue to have good relations with country managers. "They are also our customers," he points out.

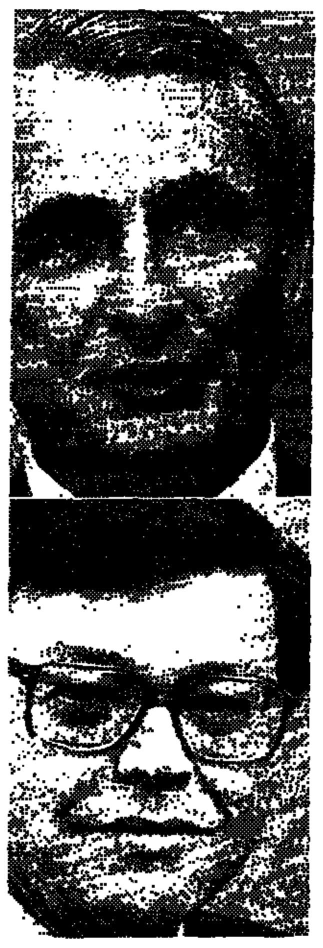
IBM's marketing and sales organisations will "buy" products from the development and manufacturing units. Like the product groups, the sales organisations will be measured in terms of their financial performance.

Country managers will also have greater say in future in how they market IBM products. These marketing and service groups will now focus on market segments based on "their own judgments of opportunities", IBM says.

"We are embarking upon creating a very different IBM company," says John Akers, IBM's chairman. IBM's corporate executives intend to withdraw from the operational aspects of management as rapidly as possible, he emphasises.

"We are going to require of management and individuals increased entrepreneurial activity and decision making and accountability. Some people (within IBM) will not take to this," Akers acknowledges.

"In parts of the business where we do not have the prerequisite skills," IBM is "aggressively considering" hiring outsiders for senior management posts. That would be another big change for Big Blue.



John Akers (top) and Jack Kuehler: reorganising IBM

WITHIN IBM they talk jokingly of middle management as "lion food": a reference to a hypothetical lion which hid near an IBM office and got away with eating a manager a day for a year because nobody noticed what it was doing, writes Alan Cane.

The changes chairman John Akers put in place two weeks ago are designed to ensure that from now on the joke falls flat: in future, IBM executives will be expected to behave as entrepreneurs, and will be held accountable for their successes and failures.

The reorganisation is aimed at breaking down the hierarchy of one of the world's most monolithic companies; it involves few structural changes but fundamentally alters the responsibilities of most of the corporation's executives. It will be a cultural transformation which cannot be implemented overnight in an organisation of 350,000 people.

Its provisions, furthermore, do not apply equally across the the organisation. Europe, for example, is reckoned to be in advance of the US. Italy, in particular, is said to be a model for the way the company should operated worldwide.

Renato Riverso, newly appointed head of IBM Europe, says: "We are in the driving seat". The changes will therefore be less noticeable in Europe than in the US.

Essentially the idea is to divide the company horizontally as well as vertically to create a "commonwealth" of semi-autonomous business units. These will be of two kinds; products business units like the existing "lines of business" with responsibilities for development and manufacture, and sales and marketing business units focused on specific markets.

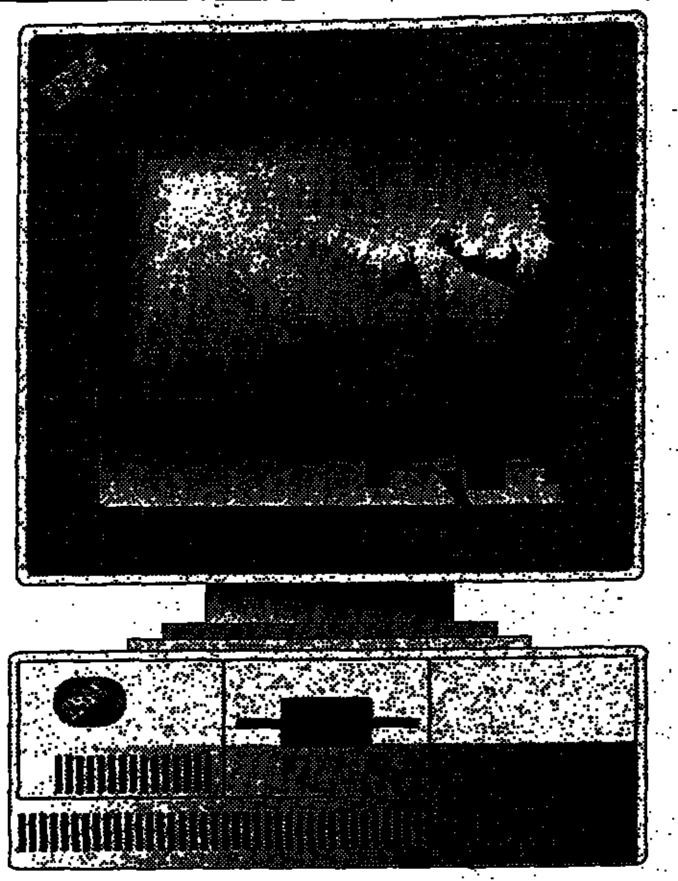
The existing lines of business cover products like Enterprise (mainframe) systems, mid-range computers and personal computers. Data storage products, featured in the accompanying article, is a new line of business which is a model for the development of IBM's product business units.

Product business units will have considerable autonomy to decide what kind of products to develop and make; they will also have their own marketing staff to sell their products outside IBM.

Sales and marketing business units may, but do not have to, take product from the product business unit. They can buy from any supplier to meet their customers' requirements. Furthermore, they cannot return unsold goods to an IBM production unit. They will take responsibility for their own inventory.

The intention is that eventually each business unit will publish its own accounts and so be publicly accountable for its commercial performance.

The plan is grand but can the fabric of the company take the strain? IBM's real problem remains how to convert lion food into hungry tigers.



BUSINESS AND THE ENVIRONMENT

In the last of a series on the UK water industry, **Richard Evans** assesses the impact of the regulators on this 'privatised monopoly'

An uneasy relationship

THE WATER industry feels vulnerable to criticism from customers because of escalating charges, under pressure from Europe to achieve higher environmental standards, and pushed hard by its regulators, who represent both. It is not a comfortable position.

When the industry in England and Wales was privatised two years ago, there was widespread concern that the onerous regulation imposed – necessary because the service is essentially a monopoly – would prove too great and would repel investors.

Although these fears have yet to be fulfilled, there have been a series of skirmishes between the industry and its two main regulators, Ian Byatt of Ofwat and the National Rivers Authority (NRA). The situation remains unpredictable.

The relationship between a privatised monopoly providing an essential service and its regulators was never going to be easy, and the issue of regulation is set to dominate the industry's politics for the foreseeable future. The one safe bet is that regulation will not only remain tough, but is set to get tougher.

In the first year after flotation, most of the industry's criticism and anxieties were directed at NRA chairman, Lord Crickhowell, the tough, politically astute former Conservative cabinet minister who pushed hard for an accelerated environmental improvement programme in addition to that already recognised as necessary at the time of privatisation.

The open-ended additional costs involved were widely regarded as unacceptable by water chiefs, and they had the tacit support of Byatt. He was primarily concerned to keep down charges that were already set to increase well ahead of inflation in order to fund the industry's huge £20bn capital investment programme.

The NRA was effective, however, in raising public awareness about water pollution and the need to improve river quality. Its most spectacular success was securing a £1m fine against Shell for pollution of the Mersey. There have been a clutch of other prosecutions, including some against the former water authorities.

The NRA has been having its own problems in recent months, with the surprise resignation in the summer of John Bowman as chief executive because of "serious shortcomings" in the running of the organisation, and it has been keeping a lower public profile.

Mike Carney, secretary of the Water Services Association, which represents the 10 privatised companies, has warned that further environmental improvements would be increasingly costly, with more and more expenditure required to obtain less and less benefit. "It is essential that any proposals for further improvement should be subject to the most rigorous medical, scientific, risk and cost assessments before decisions are taken."

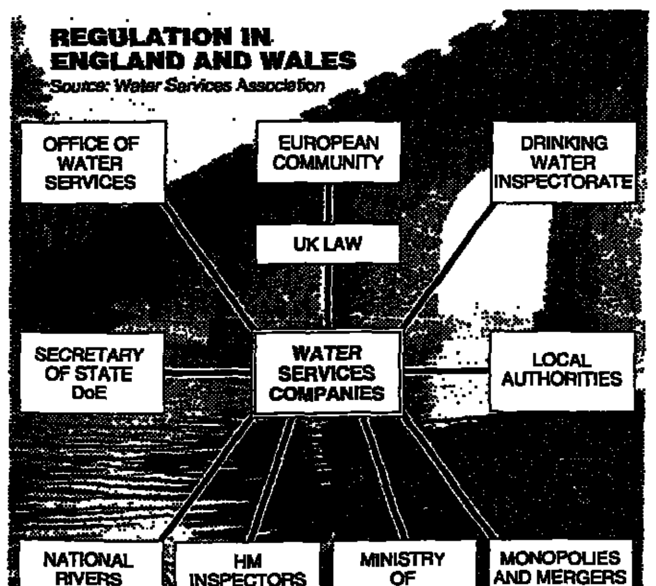
Pressure is being maintained on the industry to achieve environmental improvements, however, and the NRA last week published a disturbing report on river quality in England and Wales which showed there had been "a real and significant deterioration" in recent years.

Tough new clean-up measures have been proposed, and legally binding standards for water quality are to be introduced.

Nevertheless, it has become increasingly clear over the past year that Byatt holds the key to the industry's future. It is no exaggeration to say that the recommendations of Ofwat and the developing relations between the companies and the economic regulator will decide between success and failure for the industry and affect its relationship with its customers and shareholders.

Byatt, a former Treasury economic adviser skilled in the ways of Whitehall, has a difficult task. He has to balance his obligations to protect customers' interests with his responsibilities to ensure that the companies have sufficient capital to function properly and that investors get a "reasonable" rate of return.

The basic problem Ofwat, and the government, faces is who pays for rising standards. The NRA does not have to concern itself with the financial state of the companies; it just has to insist that certain work is done. Who pays for the work is a matter for Ofwat.



Ofwat has been given considerable powers by the Water Act that foreshadowed privatisation, but the absence of any firm criteria for deciding who pays what and when has produced inevitable conflicts. Ofwat's role, essentially, is to find ways to apportion costs which are acceptable to customers and sustainable for the industry.

After a quiet first year, Byatt has been adopting a more aggressive stance in recent months, exploring the limits of his influence and testing the mettle of industry leaders.

He has drenched the industry with demands for information and warnings about excessive profits in his role as protector of the consumer. His reputation as a no-nonsense negotiator and defender of the consumer has been steadily reinforced by the series of pointed "suggestions", and he is now regarded as the most interventionist of all the privatised industry regulators.

Ofwat made it clear over many months that it considered the companies' profitability since privatisation to have been excessive. It called for "voluntary" cuts in next year's planned increase in charges, and nearly all the companies agreed, although only by small amounts.

The game of bluff and counter-bluff ended in a draw, but Byatt's zeal and robust handling of his brief aroused strong feelings within the industry. Many leaders argued it was wrong to seek to change the rules so soon after privatisation when the industry operated in a medium and long term environment.

North West Water was particularly angry at the pressure, but blamed politicians rather than Byatt. Bob Thian, chief executive, said that short term political pressures could corrupt the regulatory regime carefully set up by the government and convert it into control of the rate of return earned by utilities, a system deliberately rejected at the time of privatisation.

Roy Watts, chairman of Thames Water, the largest of the 10 privatised companies, says: "The concern of the industry is that, without justification and after much too short a period, the regulator is heading in the direction of a role uncommonly like the government role of yesterday both in substance and timescale.

"It is much too early to change the principles on which the industry was floated. We need to get back to basics. Recognising the fundamental long term nature of the business there must be responsible maximum freedom to manage, a comprehensive and searching long term review. . . and severe penalties for failure to perform. We're in danger of tinkering with the engine before we've driven the car."

Byatt has also put forward recommendations for increased competition, and he has proposed stricter rules on financing diversification away from the core businesses so that outside ventures do not endanger water supply and sewage treatment by pre-empting scarce resources.

He is also insisting that he should be notified informally of any big or potentially controversial moves into unregulated businesses in advance. Most controversially, he has given his views on the future financial structure of the industry and the cost of capital. His proposals that the industry does not need to make such high returns and should borrow more and scale down its dividends conflict sharply with the industry's assessment.

The outcome of extended discussions over the next two years will decide the structure of the next big review of charges due in 1995, which will cover the following five years.

Although apprehensive, the companies are anxious not to be too confrontational. It would not be sensible politics to make an enemy of the regulator, particularly in an industry which faces image and public relations problems. There is an admission that Mr Byatt has political and public opinion on his side in his efforts to protect the consumer.

Previous articles on the UK water industry appeared on December 4 and 11.

Multinational effort against a disease that knows no borders

John Barham on a new initiative to rid South America of Chagas

Chagas is an insidious, incurable and deadly disease that is slowly killing millions of people in South America. Because it affects mainly poor, rural and illiterate people who lack political clout, it has never been a high priority for governments.

That, however, is changing. At a conference in Montevideo last month, scientists, donors and health officials from seven countries where Chagas is rife planned the first co-ordinated onslaught against the disease in a ten-year campaign due to start in mid-1992 at a cost of between $300m-$400m.

Corporate support will be an important part of the strategy. Business participation in environmental projects and in safeguarding industrial processes is well-established. But private sector involvement in public health campaigns is still in its infancy.

Scientists say they want more than corporate funding and donations of equipment. They are asking for help in organising what promises to be a logistically complex operation covering a huge region.

A regional approach is important because the insects that spread Chagas do not recognise borders. Chagas is caused by a parasite spread by blood-sucking triatomine insects. About 16m-18m people have the disease, most of whom will take years to die. Every year about 300,000 people are infected by the bugs that infest Argentina, Bolivia, Brazil, Chile, Peru, Paraguay and Uruguay.

Dr Chris Schofield, a British scientist who helped organise the Montevideo meeting, says: "Scientists are fed up at seeing their work go nowhere because governments have not organised properly, so we got together to organise a campaign ourselves."

He reckons that eliminating Chagas will yield savings in health costs, productivity gains and other benefits of $1.2bn annually. Meanwhile, the problem is growing as migrants bring Chagas to cities and spread the illness through blood transfusions. Chagas has even appeared in North American and European blood banks.

National campaigns to eradicate triatomine insects have languished, even though effective (and environmentally-sound) insecticides have been available for 20 years.

Ashley Ashwood

Latin America's rural poor are most at risk from Chagas

In Brazil, the worst-affected country, a campaign that began in 1983 eliminated the bug from 80 per cent of its endemic area in five years. But it began creeping back after Brazil scaled down its effort in 1988 for budgetary reasons.

As well as co-ordinating the attack on Chagas, scientists hope the involvement of seven nations will maintain continuity. If one country's programme falters, financial support and political pressure from the scientific community and neighbouring countries would ensure momentum.

Most funding should come from governments in Europe and the US, as well as the seven Latin American countries. Corporate funding and support will also be important.

Companies will be approached for cash contributions, donation of equipment and supplies. They will also be asked to second staff and provide management skills. Organisers say they need private sector skills, such as stock control, logistics and financial management. For example, British Airways has been asked to help organise an information management system to co-ordinate data between the seven countries.

Organisers are also pressing governments to allow private companies and banks to use existing debt conversion schemes to increase funding for the campaign. This approach, in which foreign debt trading at a heavy discount is redeemed for its full face value in local currency, has been widely used to finance environmental projects throughout Latin America.

Hard-nosed business methods could also avoid waste and inefficiency. Chemical companies are alleged to bribe officials to win sales and recoup the bribe by inflating prices and diluting insecticide concentrations. Scientists believe a well-organised central body would be immune to corruption, would win discounts and ensure correct concentrations.

Groups like ICI, Bayer, Sumitomo and Roussel are interested in helping, not least because potential insecticide sales could exceed $4m-$6m a year. Furthermore, public health campaigns have considerable public relations appeal. Merck, the US drug group, developed one of its veterinary medicines into a cure for African river blindness and then donated the drug Mectizan to a West African health campaign.

Dr John Horton, worldwide products director at SmithKline Beecham, the Anglo-American drug company, says the Chagas campaign could also include parallel health efforts. SB has little to offer the Chagas campaign, but it does sell drugs to kill intestinal worms endemic in Chagas-infested regions. The pay-off would come from increased sales and a public relations coup.

Despite the scientists' enthusiasm, cautious backing from companies and rising awareness in the seven governments, much work lies ahead. The campaign is already riven by internal bickering, strategy is still being plotted and fund-raising has yet to begin. Meanwhile, 800 people catch Chagas disease every day.

ARTS

Played to the hilt: Anja Silja and Helena Doese in 'Lohengrin'

Lohengrin and Königskinder

FRANKFURT AND WIESBADEN

It was just like the old days, when every new production at the Frankfurt Opera ended in uproar. Elsa sits front-of-stage, dreaming of the new Führer. Telramund rants from the despatch-box of the old Reichstag, facing ranks of pliant Prussian officers. Heinrich, an impotent figurehead in morning coat and top hat, is a Hindenburg-lookalike. A glowing red triangular projection represents the swan, symbol of national salvation. Lohengrin – modelled on the anti-hero of Heinrich Mann's novel *Der Untertan* – is a conceited political upstart who arrives in a student cap.

It sounds like one of those *disastrously wayward* productions with which the Germans try to come to terms with their Nazi past. But the biggest sur*prise about Nikolaus* Lehnhoff's new Frankfurt staging of *Lohengrin* is that it has nothing to do with navel-watching *and everything to* do with living music-theatre. We may be far removed from the world of 19th century Romanticism, but *we are unnervingly close to the* martial undertones of Wagner's score. And because Lehnhoff (and his designer Gottfried *Pilz) are clever enough to* avoid making visual references too close to history, the work preserves its allegorical mystery. *This is an opera about the* exercise of force and individual responsibility, about ideals and reality, rational and irrational power – themes which emerge with astonishing clarity in this fascinating, brilliantly-executed performance.

Lehnhoff's biggest conceit is to pin-prick the opera's set-piece ceremonial, draping it in comic-ironic terms. Telramund fumbles with half-moon specs and speech notes as he approaches the despatch box. Lohengrin – a clubbable fellow among hand-shaking superiors but disdainful of fawning females – executes a series of arty swivels and turns during his Act one duel. A trickle of chic party-goers flick coins at Telramund in a show of mock sympathy at the start of Act two. Conversation in the bridal chamber is punctuated Sempre*ni-style by Lohengrin's doodl*ing at the grand piano.

Lohengrin takes all this in its stride. Lehnhoff's theatrical *craftsmanship is a big advan*tage: it shows in his minute choreography of the Frankfurt chorus, his precise control of *lighting and imagery,* and *grading of dramatic contours.* The biggest casualty is Lohengrin himself, who is reduced to a cipher. The biggest gainer is Ortrud, who becomes a study in psychological manipulation - contrite and subservient one *moment, tyrannically confron*tational the next. As in his Glyndebourne *Jenufa*, Lehnhoff brings out the best in Anja *Silja, whose Ortrud, a fur*-coated femme fatale, transformed the stage even in her long periods of silence.

The rest of the cast played their roles to the hilt: as Telramund, Siegmund Nimsgern offered one of his better performances, while Manfred Schenk's Heinrich and Andrzej Dobber's Herald were nobly sung. Helena Doese was a *pretty and passionate Elsa,* with a juicy soprano that carries well. Thomas Sunnegardh sang the title role with a *pointed head-voice curiously* appropriate to the personality he was portraying. Steven Sloane conducted fluently, but *stumbled over the large choral* ensembles.

*

It is difficult to think of two cities so near each other as Frankfurt and Wiesbaden, and yet such poles apart. Frankfurt has the banks, the skyscrapers and sex shops. Wiesbaden is all spacious boulevards and sedate facades. The contrast is equally strong in musical life. Frankfurt, with its glass-and-concrete opera house overlooking a notorious rendez-vous for drug addicts, has always associated itself with the avant-garde. The State Theatre in Wiesbaden is a majestic late 19th century Fellner and Helmer design, with a colonnaded entrance at one end, a park at the other and a spectacular restaurant-ballroom at the side. The company's production style seems equally rooted *in the past.*

This season's programme includes a rare German revival of Humperdinck's *Königskinder (King's Children)*. Premiered at the Met in 1910, *Königskinder* has never matched the popularity of *Hänsel und Gretel*. The *music goes through a Wagne*rian medley in Act one, takes on the air of a Smetana comic opera in Act two and ends with *a poetic Liebestod*. The melodic inspiration is fitful, but the work still commands a devoted band of admirers. It was staged *at Wexford with some success* in 1986, and David Pountney is about to give it a dose of his ENO treatment.

Wiesbaden's *Königskinder* is of the old-fashioned variety. It takes the story at face value and has the ageing subscription audience cooing at the work's fairy-tale charm. Alois Michael Heigl's production, designed by Götz Loepelmann and Reinhard Wust, sets the other-worldly first act around a paddling-pool, where the Goose-girl meets her equally naive Prince and the Witch practises voodoo. Act two, in which Prince and Goose-girl are re-united in the real world *of greed and malice, resembles* a feeble Christmas panto. The final act includes an eloquent snow scene, as the lovers die of *hunger and poison.*

There must be more to the work than this. The production's one bright idea was to *give a fully-fledged stage role* to the violinist who plays the Angel of Death music: dressed in white tie and tails, Gabriela *Künzler had a haunting, statu*esque presence and played faultlessly. Other assets included Heidrun Kordes' pure, blonde Goose-girl and the Minstrel of Espen Fegran, a rich-toned baritone of the Hermann Prey school. Gunnar Gudbjörnsson's Prince had a small, light tenor. Natalie Reese was the braying Witch. The strings and horns of the Wiesbaden orchestra, conducted by Wolfgang Müller, made the most of their forest murmurs.

Andrew Clark

TELEVISION

When progress is not what it seems . . .

Terry Jones, a former *Python*, spent half an hour on BBC2 recently in a programme called *So This Is Progress*... questioning the received wisdom that successive changes in all aspects of life from dentistry to holiday entitlement represent "progress". The teeth of those *who died on the Mary Rose were not* worse than our teeth today, as most of us might assume, but better. Three hundred years ago ordinary people could settle cases of slander and libel in a cheap local church court; today only the very rich can afford such cases. The properly cured surface of a cast iron frying pan used to get better and better (for some of us it still does) whereas today's "non stick" surfaces deteriorate. It was a fascinating and deeply satisfying programme, and the extraordinary thing about it, in 1991, was that it was not part of a series but a one-off. We would be richer for more single programmes of this sort, whether 30 minutes or four hours long, with powerful ideas to convey, and the more iconoclastic the better. Thank goodness BBC2 can still find time for such work.

*

The absurdity of Lord Rees-Mogg's piano-leg-draping-committee, the Broadcasting Standards Council, becomes ever more clear. This month they report on 30 complaints. Mrs Jones of Harrogate, for instance, complained about a scene in *Wilt* which had been shown by ITV between 9.15 and 11.05 pm. The BSC reports: "The Council's Complaints Committee viewed a recording of the film, an adaptation of the Tom Sharpe novel about a polytechnic lecturer . . . to cause him embarrassment the hostess tied him to Angelica, an 'anatomically correct' blow-up doll. The scene showed Wilt desperately attempting to free himself from Angelica. In the Committee's view the scene, in the farcical style of Tom Sharpe, *was unlikely to have* caused much offence among those watching". Can you imagine the BSC sitting there on a Monday morning in *their half-moon glasses glaring at this* stuff? Like 27 others, mostly of a similar nature, this complaint was not upheld. But what of the three that were?

The first was against Radio 4 for a Victor Lewis Smith piece in *Loose Ends*. The BBC acknowledged that the item went beyond the bounds of the acceptable, *and "steps had been taken to* ensure that there would be no repetition of the incident". What they actually did was ban Lewis Smith straight *after the programme and long before* the BSC hove into view. So what has the activity of the BSC (financed, incidentally, out of your pocket and mine) achieved? The second was also against Radio 4 for broadcasting the commonest four-letter swear word on *Kaleidoscope*. This was a live programme, the presenter apologised on air for the contributor's use of the word, and it was cut from the repeat. Now the BSC says the *complaint from Mrs Kirkpatrick of* Exeter has been "upheld". So what?

The final complaint upheld was against Sky TV for broadcasting an advertisement for an 18-certificate film at 5.30 pm. Sky apologised to the complainant, Ms Dawson of Essex, noted that the screening of the trailer had been an error, and announced that after a review of commercial booking procedures a loophole in the system had been closed. Again, what was achieved which would not have been achieved by Ms Dawson writing straight to Sky? There is one thing to be said in favour of the BSC: it appears to be ineffectual. If it were scrapped it might be replaced by something much more obstructive. Perhaps *the best course is to tolerate it as* a harmless steamcock and ignore it; so no more reports here.

*

*Unless they can get the original produc*ers to come back it scarcely seems worth going on with *Spitting Image*, it has become so embarrassingly un*funny. It is surely not a question of* going on too long as some have suggested: like cartoons in newspapers this form ought to be endlessly adapt*able and renewable. In the beginning* the puppets seemed brilliantly clever and the scripts rather woeful. Then they worked hard at the writing and *made it much funnier, the songs too,* and the programme became a weekly must. Now it feels uninventive, dreary and repetitive. The disappearance of Ronald Reagan and Margaret Thatcher from the world stage must have been a blow, of course (the cigar-chomping Mafia *godmother was a superb confec*tion) but good cartoonists have always achieved a high level of comedy with whatever political material has been available. *Programme 1 of this new* series crept into the ratings at No.27, since when it has disappeared entirely from the Top 30. Hardly surprising.

*

Now that *Radio Times* is, supposedly, independent of the programme makers at the BBC and standing on its own feet, it is time it started telling the truth about cinema movies and BBC dramas. Today the BBC is screening a repeat of one of its own television dramas: *Heading Home*, but *Radio Times* is not only billing it with the white-on-black "Film" logo used for real movies, it is also omitting any indication that this is a repeat. Probably most readers will assume it is being shown for the first time. This sort of dishonesty arose originally in the days when BBC personnel were able to lean on the *Radio Times* and (usually) get their own way with billings. *BBC staff* know that viewers like to watch cinema movies – generally they have bigger budgets and are less nannyish about sex – so they made *every effort to lull us into believ*ing that their television dramas were really movies. *Radio Times* should now exert its independence, stop this mis*leading malarkey*, reserve the "*Film*" logo for real films (those which have run successfully in cinemas) and announce honestly when repeats of old *BBC programmes are being shown.*

*

Before they began doing "live obituaries" on *Without Walls* one was ready to extend the benefit of the doubt and assume it might turn out to be a merry and enlightening prank. But in the *event it has proved, sure enough, rather* ghoulish. It always seemed likely that the auto-obit of the earnest Glenda Jackson would be yawn-makingly tedious, which of course it was, but Spike Milligan's was sad. It was a good idea to hear from that benighted Irishman who was under the impression that Milligan's jokes have been mostly about bottoms and suchlike, even in *The Goon Show* (perhaps he had never heard *The Goon Show*, though he looked old enough) since this made you think about how fresh, weird, and non-lavatorial Milligan's work has actually been. Yet the man himself looked so desperately ill and unhappy that it seemed callous to require him to participate at all.

*

In Britain today Benny Hill is denied freedom of expression, although if he had a peak time programme he would doubtless *be wiping the floor with* every other funny man. In 100 other countries, as Friday's *Omnibus* on BBC1 will explain, he is hugely successful. Indeed, outside Britain he is seen as one of the world's great comedians. Yet we are told that here he is "out of favour" because "his style is branded sexist". Does this mean that British viewers now reject his sort of comedy – slapstick, doggerel, and heterosexual frolics – which has been so popular in Britain for centuries? Of course not. It means that three or four men in key positions in programme scheduling have toed the line laid down by the totalitarian feminists who are so disproportionately represented in the world of the mass media.

What it would probably turn out to mean, if ever you could get right to the bottom of it (whoops!) is that those men would not gag Hill if left to their own devices, but have been suborned by their feminist wives who get embarrassed at Islington cocktail parties when asked by other feminists to justify their husbands' actions. Perhaps they could learn the line about not agreeing with what you say but defending to the death your right to say it. This seems to be one of the first examples in Britain of "Political Correctness" *throttling freedom of expression* and it is shabby and shameful. Incidentally, as long time readers of this column may recall, Hill's comedy has never much appealed to me.

Christopher Dunkley

Spitting Image: President Bush and John Major; Mrs Thatcher and Ronald Reagan are sorely missed

Poulenc

RADIO 3 & ROYAL FESTIVAL HALL

Poulenc's 1950 *Stabat mater* for soprano, mixed choir and orchestra provided Monday's all-French programme by the BBC Symphony Orchestra and Chorus with a notably impressive second half. This is one of the most substantial and heartfelt of all Poulenc's works: it looks back to Bach, across to Stravinsky, and ahead to his own opera *Dialogues des Carmélites*, while being at the same time stamped in every bar with its own unmistakable individuality of purpose.

Poulenc remains an enigma. His methods can be disconcerting: the same brevity of internal sections, the same unexpected swish of luscious harmonic progressions and *meltingly lyrical turns of phrase* characterise his light and serious compositions equally. With the bleakness of its minor-key choral verses tempered by the soft, sinuous line of the solo soprano, the idiom of the *Stabat mater* puts one in mind of Ronald Crichton's memorably unkind put-down of this composer (in *Carmélites* vein) as a "boudoir Mussorgsky".

Yet it is the indefinable rightness of scale and proportion in each section that one constantly registered in Monday's performance, and the accumulation over the whole sequence of a peculiarly personal kind of gravity – also the way in which, in spite of incursions of lushness, Poulenc's religious vision utterly eschews sentimentality. The final "glory of paradise" is by no means triumphantly proclaimed; the gently swaying, grief-stricken mood of the close proves deeply affecting.

The conductor, Andrew Davis, showed himself a strong, sensitive advocate of Poulenc. The various expressive pulls of the music were kept in an acutely well-judged balance. Compared with the scratchy choral singing on the early-1960s French EMI recording, the execution here was admirably secure and unblemished; occasionally, though, one might have welcomed a touch of French forwardness, even edge, in clarifying projection of bass and tenor lines.

In Régine Crespin that same EMI record possesses a solo soprano of incomparable majesty and beauty of tone. Amanda Roocroft's youthfully gleaming, full-toned high phrases left their own distinctive mark; lower down the sound was sometimes curiously murky.

Max Loppert

Christmas Eve

COLISEUM

Rimsky-Korsakov's fairy-tale *comedy was first seen at the* English National Opera three years ago, and now David Pountney's production has been energetically revived by David Sulkin. It does make a good family show for Christmas: the music is well worth discovering; and among the large, keen cast the two new principals are a particular pleasure to hear.

Drawn from Gogol, the story was used for a Tchaikovsky opera too, *Vakula the Smith*. The scene is a Ukrainian village, represented here with any amount of winsomely jokey resource in Sue Blane's designs. Vakula loves the teasing Oksana, and his efforts to win her involve him with the local Witch, the Devil and eventually the Tsarina herself. Rimsky's version emphasises the homely magic: striking colour-effects in the orchestra (expertly conducted by Michael Lloyd), strictly folk-based music for the singers. The latter has its limitations so far as individual character-drawing goes – Rimsky was no Mussorgsky – but it is generally tangy, often rousing and sometimes surprisingly poignant.

A fine example of that is Oksana's yearning last-act song, "ethnic" but highly chromatic, with a lovely solo-strings accompaniment. With it the new Oksana, the young Australian Cheryl Barker, crowned a fetching portrayal which developed from modern knowingness to enthusiastic surrender. Her bemused swain is the young Canadian Richard Margison, who wields not only a bluff, disarming manner but a hugely robust tenor voice – large, full, warm, natural, tireless and with exemplary diction. He is a splendid find; other roles will have to show what subtleties he may be capable of, but here he offers everything needed and much more.

As often before in comic opera, Pountney goes for frenetic cartoons. Anne-Marie Owens' Witch is ripe enough to make a solid mark (and she lends the invisible Tsarina an authoritative voice too); so is John Connell's Chub, Oksana's crusty, lecherous father. Andrew Greenan sounds formidable as the "medicine man" Patsyuk – though that description in the cast-list doesn't sound quite right: a translation-problem?

Pountney's own translation of the libretto sings tolerably well, with some awkward bits. Terry Jenkins' Devil and the lesser old lechers, Gordon Sandison as the Mayor and Alasdair Elliott as the Priest, sing and cavort briskly, but a more human production would give them better opportunities in the scene where they all wind up hiding in the giant bath (a Gogolian twist on bedroom farce). I suspect that seasoned Russian singer-actors could make more genuine comedy of it; coming just before the interval here, it starts to feel like a *longueur*. Pountney's version of the long *divertissement at the Tsarina's court* – which would probably be tedious in anything like the original conception – is *crowded with hit-or-miss* ideas, but lively enough to be disarming.

The chorus, like the dancers and the jester/prop-changers, are called upon to do all sorts of strenuous things, and do them with a will. They attacked the grand setpieces Rimsky allotted to them with stirring fervour. All in all, the whole show is so determinedly colourful that it could need a very severe spirit to take a sniffy view of it.

David Murray

INTERNATIONAL ARTS GUIDE

TODAY'S EVENTS

BERLIN

Schauspielhaus 20.00 Alan Miller conducts the Berlin Symphony Orchestra in Barber's Adagio for strings, Tchaikovsky's Fourth Symphony and Mozart's Clarinet Concerto, with Michael Simm. Tomorrow: Wurttemberg Chamber Orchestra *(East Berlin 2272 261)*
Philharmonie Kammermusiksaal 20.00 Bernard Haitink conducts the Berlin Philharmonic Orchestra in music by Mozart, Dvorak and Haydn, repeated tomorrow and Fri (West Berlin 2614 383)
Deutsche Oper 20.00 Christoph Prick conducts Elektra, with a cast led by Janis Martin and Leonie Rysanek. Tomorrow: Hansel and Gretel (West Berlin 3410 249)

BOLOGNA

Teatro Communale 21.00 Violin recital by Uto Ughi. Tomorrow in Sala Europa: Lyon Opera Ballet. Fri and Sat in Chiesa di S. Domenico: Valery Gergiev conducts Stravinsky and Mozart (529999)

BUDAPEST

CONCERTS
Zoltan Kocsis is conductor and piano soloist in a concert tonight with the Budapest Strings at the Academy of Music. At the Budapest Convention Center, Karl Anton Rickenbacher conducts the Hungarian Radio and Television Chorus and Budapest Symphony Orchestra in works by Bach. Tomorrow at the Academy of Music, there is a Vivaldi concert by the Concentus Hungaricus. On Sat, Andras Ligeti conducts the Hungarian State Symphony Orchestra to mark the 150th anniversary of Dvorak's birth.
OPERA
Tonight at 17.00, the State Opera performs Die Meistersinger von Nurnberg. Tomorrow: Don Pasquale. Fri: Anna Karenina ballet. Sun: Les contes d'Hoffmann. The Erkel Theatre has Hungarian-language performances of Hansel and Gretel tonight, Fri and Sun, with Johann Strauss' operetta Der Zigeunerbaron tomorrow.
● *Pre-booking* for concerts at the National Philharmonic Booking Office (Vorosmarty ter 1) and for opera at the Central Theatre *Booking Office (Andrassy ut 18)*, also at theatre box offices.

GOTHENBURG

Konserthus 19.30 Nicholas Cleobury conducts the Gothenburg Symphony Orchestra in a programme of operatic arias sung by the German mezzo-soprano Doris Soffel (167000)

HAMBURG

Staatsoper 19.00 Fabio Luisi conducts *Otello*, with Vladimir Atlantov in the title role, Franz Grundheber as Iago and Gabriela Benackova as Desdemona, also Sun. Tomorrow, Fri, Sat: German-language version of Bernstein's musical On The Town. Sun and Mon in the Musikhalle: Christoph Prick conducts Strauss' Sinfonia Domestica and Beethoven's Fifth Piano Concerto, with Tzimon Barto (351555)
Deutsches Schauspielhaus 19.30 Shakespeare's Romeo and Juliet, directed by Michael Bogdanov. Sat and Sun: J P Donleavy's play The Ginger Man. Next Mon, Wed, Thurs: Hamlet (248713)

LONDON

MUSIC
Covent Garden 19.00 Jeffrey Tate conducts a revival of Johannes Schaaf's 1987 production of Le nozze di Figaro, with Lucio Gallo in the title role, Thomas Allen as the Count, Marie McLaughlin as Susanna, Felicity Lott as the Countess and Anne Sofie von Otter as Cherubino. Runs till Feb 12, with next performance on Fri. Tomorrow: Mozart's Mitridate (071-240 1066)
Coliseum 19.30 Adam Fischer conducts Richard Jones' ENO production of Die Fledermaus, with a cast led by Vivian Tierney, *Donald Maxwell and Lesley* Garrett, also Sat. Tomorrow: Le nozze di Figaro (071-836 3161)
Royal Festival Hall 19.30 Wolfgang Sawallisch conducts the London Philharmonic in Brahms' First Symphony and Second Piano Concerto, with Maurizio Pollini (071-928 8800)
Queen Elizabeth Hall 19.45 Nicholas Kraemer conducts the *London Bach Orchestra and Holst* Singers in Handel's Messiah. Tomorrow: MacLennan Dance and Company (071-928 8800)
THEATRE
National Theatre
Tonight and tomorrow, the Olivier is showing The Resistible Rise of Arturo Ui, Brecht's grim comic parable about Hitler, starring Antony Sher. Fri, Sat and Mon: Alan Bennett's acclaimed adaptation of The Wind in the Willows, directed by Nicholas Hytner. The Lyttelton repertory includes Alan Bennett's new play The Madness of George III starring Nigel Hawthorne (tonight and tomorrow), and Edward Bond's 1973 play The Sea (Fri, Sat and Mon). The Cottesloe has Lorca's Blood Wedding and a classical Indian play, The Little Clay Cart (071-928 2252)
Royal Shakespeare Company
The repertory at the Barbican Theatre currently includes Much Ado About Nothing directed by Bill Alexander (tonight and tomorrow), and David Edgar's stage adaptation of Robert Louis Stevenson's classic tale The Strange Case of Dr Jeckyll and Mr Hyde (Fri and Sat). The Pit has Sam Mendes' production of Troilus and Cressida and Peter Whelan's new play about the conflict of fame, wealth and ideals, The Bright and *Bold Design* (071-638 8891)
● For information about West End shows, phone Theatreline from anywhere in the UK: Plays 0836 430959 Musicals 0836 430960 Comedies 0836 430961 Thrillers 0836 430962

PARIS

Palais Garnier 19.30 Opera Ballet in Rudolf Nureyev's production of Romeo and Juliet. Runs till Dec 31, with next performances tomorrow, Fri and Sat (4017 3535)
Opera Bastille 19.30 Friedemann Layer conducts Bob Wilson's production of Die Zauberflöte, with a cast led by Hans Sotin, Hans-Peter Blochwitz and Cynthia Haymon, repeated on Fri and Mon. Tomorrow, Sat and Tues: Boris Godunov (4001 1616)
Salle Pleyel 20.30 David Zinman conducts the Orchestre de Paris in music by Rimsky-Korsakov, Lourie and Richard Strauss, with Gidon Kremer soloist in Gubaidulina's Offertorium. Repeated tomorrow (4563 0796)

PRAGUE

Tonight's Prague Symphony Orchestra concert in the Smetana Hall is conducted by Petr Altrichter, and includes Dvorak's Suite in A and Elgar's Cello Concerto, with Gustav Rivinius (U Prasne brany 2, tel 232 5858). Tomorrow and Fri, Gerd Albrecht conducts the Czech Philharmonic Orchestra and Prague Philharmonic Chorus in Mozart's Requiem and Dvorak's Te Deum. (231 9164). This week's opera repertory includes Don Giovanni tomorrow at the Estates Theatre, Martinu's The Miracle of Our Lady tomorrow at *the Smetana Theatre*, and Smetana's The Secret on Sat at the National Theatre. For pre-booking and information about other events, contact city centre ticket agencies (Bohemia, Na Prikope 16, 226738, or Melantrich, Wenceslas Square 38, 228714) and theatre box offices.

STRASBOURG

Palais de la Musique 20.30 Jerzy Semkov conducts the Strasbourg Philharmonic Orchestra in Mozart's Divertimento K136 and Piano Concerto No 26 with Maria Joao Pires, plus Beethoven's Sixth Symphony. Repeated tomorrow (8837 6777)
Theatre Municipal 20.00 Ballet du Rhin in a new production of choreographies by Claude Brumachon, Oscar Araiz and Jorma Uotinen. Daily till next Mon (8875 4823)

ZURICH

Opernhaus 20.00 Two ballets by Bernd Roger Bienert. Tomorrow: Die Zauberflöte with a cast including Deon van der Walt and Hermann Prey. Fri: *Le nozze di Figaro*. Sat: Eliahu Inbal conducts first night of Tony Palmer's production of La forza del destino, with a cast led by Mara Zampieri, Francisco Araiza, Giorgio Zancanaro and Simon Estes. Sun: Lohengrin with Grace Bumbry as Ortrud (262 0909)
Tonhalle 19.30 Christoph Eschenbach conducts the Tonhalle Orchestra in Ravel's G major Piano Concerto, Gershwin's Rhapsody in Blue, Tchaikovsky's First Piano Concerto, with piano soloist Tzimon Barto. Eschenbach also joins Barto and orchestral soloists in Bartok's Sonata for two pianos and percussion. *Repeated on Fri* (201 1580)
Fraumunster 19.30 Michela Petri is flute soloist in a concert with the Swiss Chamber Orchestra (221 2283).
Fri and Sat: Zurich Chamber Orchestra and Concert Chorus in a programme of Christmas music by Bach and Corelli (252 1737)

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2300-2330 World Business Today
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Super Channel
0600-0630 Business View
0630-0700 Business Insiders
2130-2200 (Tues) East Europe Report – weekly in-depth analysis from FTTV
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2130-2200 (Thurs) Talking Heads - international issues

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0900-0930 World Business This Week – a joint FT/CNN production
1540-1610 Moneyweek
1300-1930 World Business This Week

SUNDAY

Super Channel
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Sky News
1230, 1630, 2030, 0030, 0230 FT Business Weekly

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Wednesday December 18 1991

A French Euro-blockage

EDITH CRESSON, the French prime minister is probably hoping it will be third time lucky. After the rejection of her plan for a MITI-style industry ministry and her failure to stop Japan's NEC buying a 5 per cent stake in Bull, the state owned computer maker, she is now sponsoring a sketchy plan to create a sprawling, public sector, high-tech conglomerate. The aim is to generate "critical mass". It may well turn into a critical mess, instead.

The combine would pool the activities of state-owned groups in nuclear power, biotechnology, electronics, computers and telecommunications. The capital equipment and consumer goods businesses would move on different economic cycles, so offering the conglomerate financial stability. The profitable France Telecom could support Bull and Thomson's loss-making consumer electronics division.

Such a national rationalisation of electronics and engineering would not itself be novel. In the past decade the British electronics industry has consolidated around the General Electric Company. In Germany, Siemens and Daimler Benz have reinforced their leadership in engineering and electronics.

The consolidation plan is partly the latest twist in Mrs Cresson's struggle over industrial policy with Mr Pierre Bérégovoy, the finance minister, who controls the industrial portfolios. But there is also a European dimension. The French returned from Maastricht smarting over the watering-down of clauses on industrial policy. This combine would be a message to Mrs Cresson's critics that her belief in an activist industrial policy is unshaken.

Driving force

The driving force behind the plan is the obsession among French policy-makers with Germany's industrial structure. The French public banks, Credit Lyonnais and Banque Nationale de Paris, are playing a quasi-Germanic role in industrial restructuring, through their stakes in Usinor Sacilor, the steel producer, and Air France. Now the government has come up with a plan for a do-it-yourself Siemens.

Both the French and their EC partners should be wary of the glint in Mrs Cresson's eye. *In part the plan is an* attempt to escape EC constraints on state aids by diverting the profits of France Telecom and the nuclear industry away from the exchequer into loss-making electronics groups. Any such move should be stamped upon by the EC.

Industrial logic

The industrial logic of a group spanning bio-technology and nuclear power is hard to fathom. Siemens was built *patiently from its base in the* electrical industry. Its strengths, which follow from steady organic growth, cannot be gained through mergers; its weaknesses, notably a slow-moving bureaucracy, can be.

Above all, this return to "national championism" will not resolve the strategic dilemmas facing Bull and Thomson. The merger of two weak companies, particularly ones operating in highly competitive, global industries like semi-conductors and consumer electronics, would merely create a larger weak company. These companies need access to resources, technology and new products. They would gain neither by being lumped together.

The way ahead for Thomson and Bull lies in international alliances. In semi-conductors, computers and consumer electronics that means doing deals with Japanese groups. Indeed, it is not clear that the Cresson plan would even find favour with the leaders of the businesses involved, who are more aware of the need for an international *outlook than their* political masters. Thomson is already linked to JVC, the Matsushita affiliate, and Bull to NEC. Unfortunately, any development of this approach would run into Mrs Cresson's irrational opposition to the Japanese.

The danger is that the proposed grouping could form the foundation for a "fortress France". It could stand in the way of further restructuring of ailing industries within Europe and hinder the international alliances that any electronics group needs to survive. It would not be an industrial dynamo for France, but a serious obstacle to European industrial progress.

Hong Kong in transition

THE important changes in the life of Hong Kong are unlikely to occur overnight on June 30 1997, when it ceases to be a British colony and becomes instead a special administrative region of China. They are taking place now as each of its institutions is adjusted – or, like Jardine Matheson, seeks to position itself – for the transfer. The manner of resolution of the issues raised gives grounds for concern about Hong Kong's well-being in these years of transition.

This year has seen the agreement between Britain and China on the building of Hong Kong's new airport. The end result of a protracted dispute reflected realistic recognition that Beijing had to have a role in matters which straddled the hand-over – though the British prime minister said on a visit to China made to seal the deal that there was "no question of the Chinese government seeking any veto, condominium or joint administration" before 1997.

Then came the first elections to the Legislative Council, which will have a rising number of elected seats under agreements made with China – which, however, views Legco as an advisory body with no relevance until 1997.

This month saw the first expression of partial democracy: a Legco vote condemning an agreement between Britain and China on the composition of the Court of Final Appeal, which is to replace the Privy Council as Hong Kong's ultimate judicial body.

Dangerous divergence

The arguments over the court reveal the huge gulf between Britain, which was seeking to ensure specialist competence and therefore some judges from outside Hong Kong, and China which viewed the issue as one of sovereignty and wanted no outside interference. (The compromise, still to be approved by Legco, allows for at most one out of five sitting judges to be from overseas). The gulf in itself underlines the difficulties of reaching amicable solutions on Hong Kong's future.

But the issue also reveals a dangerous divergence in the governance of Hong Kong. On the one hand, democratic processes have been set in train and have raised expectations. On the other, the important decisions about the territory's future are made by London and Beijing. Not only do the two sides meet in the Joint Liaison Group, but as a result of the airport agreement they now have twice-yearly meetings at foreign secretary level.

Democratic processes

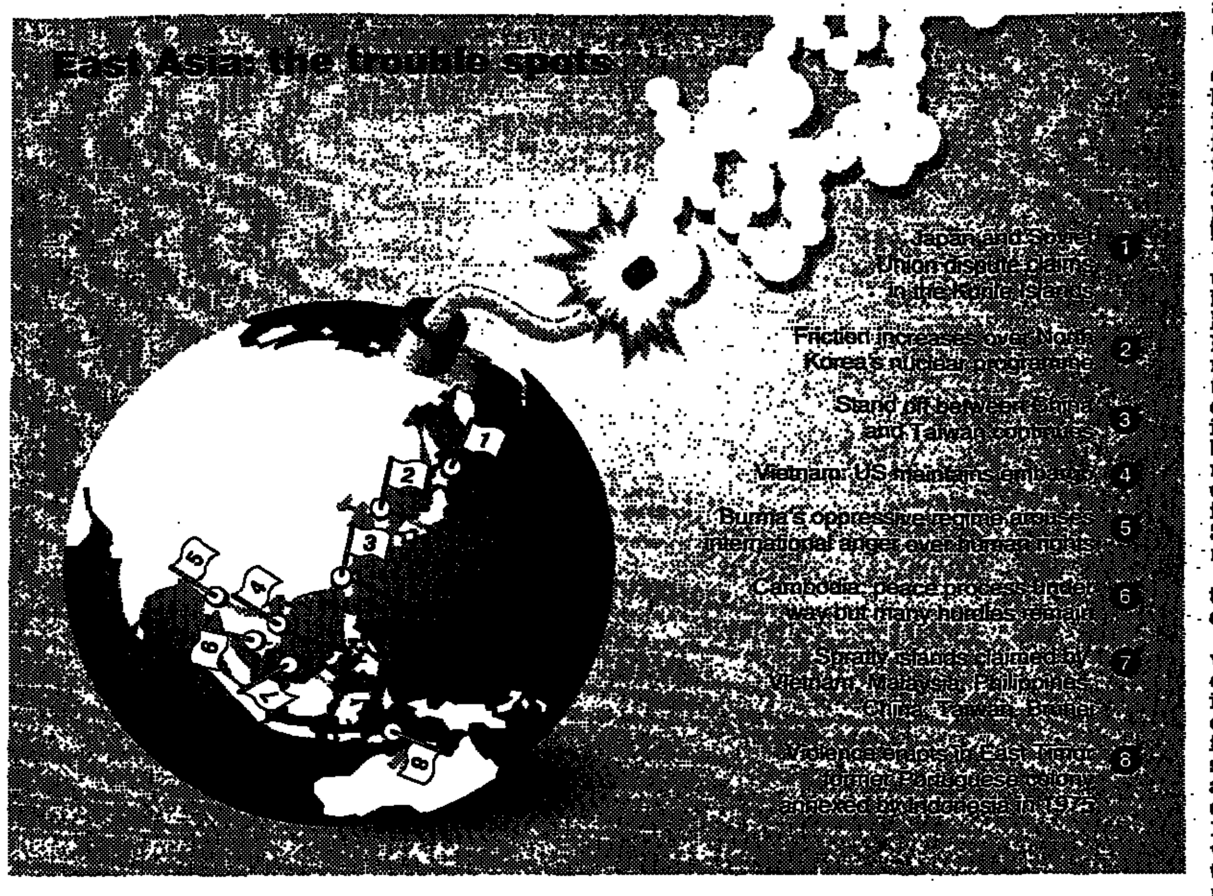
In theory, the interests of Hong Kong are incorporated into Britain's position by the governor, who is appointed in London. But the reality is that over the coming years, the interests of the British government and of the people of Hong Kong may well not coincide. Britain, after all, had never troubled to encourage democratic processes in Hong Kong until the time came near for it to leave. The reality is also that the important issues – the next thorny one may be over the handover of military facilities in Hong Kong – will continue to be decided between Britain and China.

Hong Kong therefore needs an effective advocate. Its governor should forcefully and publicly represent its interests and views – as expressed through the democratic processes – so that they influence discussions between London and Beijing. It is widely thought that there will be one more British-appointed governor after Sir David Wilson, who is a diplomat and Sinologist. The appointment should be made soon, and the appointee should be a more political animal, able to be tough with both sides.

A new governor would not solve the entire problem. Everybody in Hong Kong is manoeuvring for 1997, whether it is an individual seeking a foreign passport or a company like Jardine seeking a different stock market listing. That cannot be prevented. Legco will still be a body with high expectations of itself, but for which the future sovereign power sees a very limited role. But a more open style of government, ensuring that issues are *publicly debated*, would prevent the kind of bitterness which arose in the airport dispute. The alternative will be unhappiness on all three sides and a rocky transfer which will do no one any credit.

A continued strong US commitment to Asia remains important as tensions linger, write **Lionel Barber** and **Alexander Nicoll**

On the safe side of a security risk



President George Bush begins a long-planned trip to east Asia later this month with two goals. He wants to correct the impression that US foreign policy is tilted toward Europe; and he intends to convince his hosts that the US will remain a visible Pacific power.

The theme of "America in Asia" may not be an easy sell in Japan, Australia, South Korea and Singapore when Mr Bush sets out on December 30. Calls for more presidential attention to domestic affairs forced Mr Bush to postpone his Asian tour in early November, sending ripples of unease through the region. In the run-up to next year's presidential election – and after ceremonies to mark the 50th anniversary of the Japanese attack on Pearl Harbour on December 7 – the air is thick with mildly xenophobic "America First" rhetoric among Democrats and Republicans alike.

Most Asian governments feel that a continued strong US presence, and a close understanding in Washington of the region's problems, are essential for its future security. They are *watchful for any sign that US commitment might be wavering.*

The US has pushed one regional issue to the top of the international agenda. North Korea's efforts to develop nuclear weapons – evidence suggests that they are far further advanced than western intelligence *had previously thought possible* – were described recently by Mr Dick Cheney, US defence secretary, as the "number one threat to security" in the region. He postponed proposed troop cuts in South Korea.

But it is not only North Korea that arouses unease. While the rest of the world is adjusting to the end of the cold war, many Asian countries nurse animosities and mistrust among themselves, stemming from imperial occupations and wars both recent and long ago. "We're never sure exactly who the enemy is," says one experienced Asian diplomat. The fear is that the end of the clear-cut superpower divide will create a vacuum in which such tensions could grow.

This has prompted calls from Asian academics and some governments for creation of a multilateral forum in which regional security issues could be aired – but there is no consensus on how this should be done.

Proposals for an *Asian version of* the Conference on Security and Co-operation in Europe are viewed as premature; there has even been resistance among the Association of South-East Asian Nations (Asean) to discussing security at annual ministerial meetings with main trading partners – *the US, the European Community*, Japan, South Korea, Canada, Australia and New Zealand.

Mr Chung Min Lee, a South Korean university professor, says: "The need for a realistic regional security institution will be enhanced in the years ahead as economic and technological *competition both within the region* and with other blocs such as the EC may well be intensified." But he concedes that "the vast expanse which Asia represents poses immense challenges in the creation of a region-wide security mechanism."*

Why is it so difficult? Mr Taro Nakayama, until recently Japan's foreign minister, said in a speech this year that the region did not have a clear-cut east-west dichotomy. "The alliances are mostly bilateral; the conflict of interest among nations is complex; their threat perceptions are diverse; all of which makes the overall security configuration extremely complex."

The US military presence in east Asia has reflected this. It has never been shaped exclusively by the need to contain Soviet power. Its role as "balancing wheel" or honest broker remains important, underpinned by a network of essentially bilateral alliances, of which the lynchpin is the US-Japan security pact.

In an article in the winter issue of Foreign Affairs magazine, Mr James Baker, US secretary of state, calls for a new Asian security order built upon three pillars: a framework for economic integration to support an open global trading system; a push for democracy; and a defence structure *for the Asia-Pacific theatre.*

Even before the collapse of the Soviet Union, the Pentagon had drawn up plans for a cut of slightly more than 10 per cent in its base force of 135,000 deployed in Asia; these cuts are to be coupled with higher contributions from Japan and South Korea as host nations. By 1993, Tokyo will contribute 73 per cent of the non-salary costs of US deployed forces.

The aim is to beef up mobility, and create military stations tailor-made for US forces, similar to Saudi air-bases which proved their value in the Gulf war. In this respect, US officials play down the upcoming US withdrawal from Subic naval base in the Philippines, citing as an alternative a new port and air base in Singapore which can host the latest F-16 jets.

Asian countries see ample reasons for maintaining a strong US military presence. Asia brings together the interests of five important powers – the US, Soviet Union, China, Japan and India, of which the military might of the last two is growing. The rapid economic growth of many countries in the region also creates the risk of discord. They are fiercely competing for investment, and their drive to maintain their growth rates could be at each other's expense.

Most worrying to many Asians has been *the strong military presence* of the Soviet Union. Mr Kiyoshi Araki, a Japanese diplomat, writes: "While unilateral or negotiated reductions in Soviet forces are steadily under way in Europe and other parts of the world, (the north-west Pacific) is the only region left where the relentless *qualitative upgrading of Soviet* conventional and nuclear capabilities is progressing."**

True, the Soviet Union has had a new posture. It has established diplomatic relations with South Korea, and has held talks – not resolved – with

'The north-west Pacific is the only region where the relentless upgrading of Soviet conventional and nuclear capabilities is progressing'

Tokyo on the issue of the Kurile Islands seized from Japan in 1945. Relations with Beijing have improved. Moscow has withdrawn its forces from Mongolia and reduced its military presence in Vietnam. However, the current break-up of the Soviet Union and extreme uncertainty about the form and identity of future leadership in Moscow – and control of the nuclear arsenal – keeps concerns very much alive.

The US also has strong economic reasons to maintain its presence. The Asia-Pacific region is America's largest trading partner. Two-way trade *amounts to more than $300bn a year* – nearly a third more than transatlantic trade. US companies have invested more than $61bn in the region, and there are more than $91bn of Asian investments in the US.

The US has pushed successfully for a multilateral forum to reflect shared *economic interests. The Asia-Pacific* Economic Co-operation grouping included the US and 11 other Pacific basin economies when it was formed two years ago; in November, the club extended membership to China, Hong Kong and Taiwan. Despite fears about its being a regional economic bloc to counter the EC and "contain" Japan, Mr Baker insists it will be a catalyst for economic integration and trade liberalisation.

US interest in multilateral approaches applies throughout Asia. Mr Baker, in his article in Foreign Affairs, cites the Cambodian peace process in which the combined efforts of Asean members, Japan, Australia, and the permanent five members of the the United Nations Security Council all pushed the parties towards a fragile agreement.

There are other problems in Asia to which such an approach could be applied. The most obvious example is that of the two Koreas, though they have recently made striking progress with the signing of a pact of non-aggression pact and reconciliation, their first substantial accord since the end of the 1950-53 Korean war. Both have joined the United Nations, and are holding regular talks as well as stepping up cross-border trade.

At the same time, there are signs that the multilateral pressure on North Korea over the nuclear issue may be paying off. North Korea recently shifted its position to say that it would sign an agreement permitting international inspection of its nuclear facilities when the US begins withdrawing nuclear weapons from South Korea. The withdrawal is thought to be nearly complete. North and South Korea also agreed to work toward a nuclear-free peninsula.

But the nuclear concerns remain, and it is uncertain what will happen in Pyongyang after the 79-year-old Kim Il Sung, the communist dictator who has ruled the north for 43 years, dies. There have been suggestions for "four-plus-two" discussions involving the two countries and four powers: the US, the Soviet Union, China and Japan. But South Korea firmly rejects any Japanese participation in the determination of its future.

Elsewhere, there are a number of other potential points of future instability: Burma's regime has stepped up its oppression by closing universities in response to student demonstrations; violence in Indonesia; political and economic problems in the Philippines; and the long-running dispute between China and Taiwan.

Many issues in Indochina remain unresolved: the fragility of Cambodia's peace agreement was underlined when Khmer Rouge guerrilla leaders were beaten up on their return to Phnom Penh to take part in the transition process; and Vietnam's communist leadership, striving to win international acceptance and financial backing for market-oriented economic reforms, remains stymied by a US embargo. Washington, still smarting from defeat 16 years after the fall of South Vietnam, has made only small moves towards normalising relations.

Against this background, the posture of each of the region's main powers is critical.

In Japan, the close relationship with the US is seen as pivotal, and confidence in it remains strong. Japan itself can wield considerable influence over regional security issues through its economic clout. Japan's defence spending has been steadily growing as a proportion of general government expenditure, to nearly 12 per cent in 1990. However, the Japanese remain very uneasy about any increased military role. Mr Kiichi Miyazawa, the new prime minister, failed to win parliamentary approval this year for a bill to authorise the despatch of Japanese troops for UN peacekeeping forces after the legislation stirred worries that it would infringe the country's peace constitution.

Perhaps the greatest unknown is the future approach of China, by far the region's largest country. It has established diplomatic links with Indonesia and Singapore, signalling its desire for warmer regional ties. But it remains a significant seller of arms to undesirable regimes such as that in Burma.

With a multilateral approach to the overall security of east Asia still some way off, the region's best hope is that recent relaxations of tension will foster stepped-up bilateral discussions, with concentrated international efforts to solve persistent problems, along the lines of the diplomatic efforts which produced the Cambodian peace agreement.

This will require sustained US engagement, but it may also demand a greater political role for Japan. In Europe, the US has shown itself able to adjust to the growth of German power; the test for President Bush in Asia will be to spell out how he sees the oft-mentioned, but still ill-defined, partnership with Japan working out in practice.

* *The Asian-Pacific Community in the Year 2000: Prospects and Challenges. Sejong Institute, Seoul 1991.*
** *Japan's Security Policy in the Regional and Global Context. RIIA Discussion Paper No 37 Chatham House, London. £5.*

OBSERVER

Coutts' new banker

■ Coutts & Co, the Queen's banker, prides itself on being terribly discreet. So no one is making any visible fuss of the fact that a mainstream clearing banker from parent National Westminster is being parachuted in for the first time to replace managing director Julian Robarts who is taking early retirement.

Unlike his predecessors, NatWest's Ian Farnsworth is not an old Etonian, nor is he a member of one of the founding families. There is still a Robarts' office in Lombard Street and chairman Sir David Money-Coutts is the great, great, great, great grandson of Thomas Coutts. By contrast, the 53-year-old Farnsworth started as a humble bank clerk in Nottinghamshire.

But he is clean shaven and promises that he will don a frock coat when on duty. He is also very enthusiastic for his new charge claiming that "the era of the private banker is making a comeback".

Although the 400-year-old Coutts has been under the NatWest umbrella since 1919, it has always been run at arms length and has never been a real money spinner. With close to 2000 staff and just 45,000 customers in the UK, its return on capital is mediocre, yet its potential is considerable.

Whereas other UK clearing banks, such as Barclays, have ditched their famous regional banking brand names like Martins, NatWest still has a chance to exploit one of the great names in private banking. Farnsworth's arrival is long overdue.

Two-card brag

■ Northumbria police, the geniuses who brought us cardboard cut-out policemen to deter shoplifters, are marking Christmas with a different sort of card: vinyl sheet.

They plan to station fake police cars made from it in strategic positions, such as overpasses, to shock speeding motorists into slowing down. Costing £375 apiece, the full-size models of Vauxhall Senators in the Northumbria force's livery are made by the PPG company, which also begets the cut-out cops.

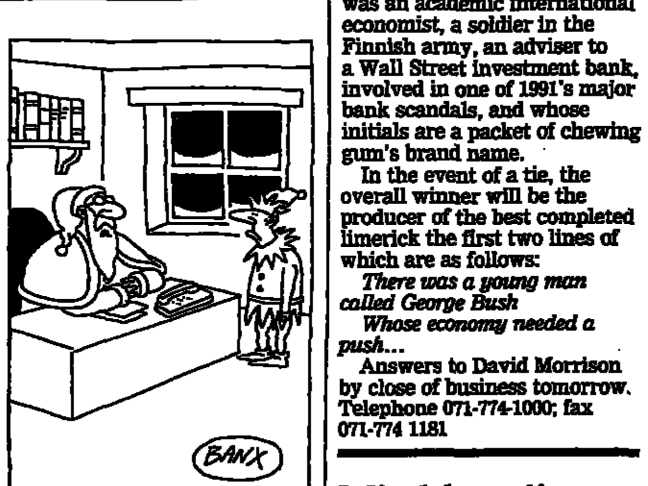
But motorists in the area should be warned that the police are not playing an entirely dummy hand. *Real* officers with speed-detection devices will sometimes be on duty beside the cars or further along the road.

Baring plus

■ Julian Baring's switch to Mercury Asset Management, along with his £45m gold fund, is remarkable. After almost a quarter of a century at James Capel – including 16 years as the number one rated gold analyst – capturing Britain's number one gold bug is quite a coup for the House of Warburg.

In one respect it can be seen as a family reunion. The 56-year-old Baring, and cousin Oliver, both learnt the gold trade in South Africa's Anglo American Corporation. Oliver joined Rowe & Pitman, now part of Warburg, and is the key man in maintaining Warburg's close ties with Anglo. Julian says that his cousin's presence is pure coincidence. Nevertheless, it does mean that Warburg now has the most formidable group of mining-related talent in the City.

The track record of Baring's gold fund is impressive but this probably has more to do with the fact that the fund was not committed to putting all its money into the yellow metal. Baring has been less successful when it comes to forecasting the gold price itself. When pressed he falls



"I'll have to let you go – most of my round's been re-possessed

back on his old favourite of relating the price of a gold sovereign to the cost of dinner at the Savoy.

In 1914, a sovereign would pay for dinner for 3.3 people. A decade ago, it would buy dinner for six. At today's price of £48.25 the ratio drops to 1.3. Baring, has been wrong before, but he thinks it means that gold is cheap rather than the Savoy is too expensive.

Currency quiz

■ For the second year running the boss of Goldman Sachs' economic research team in London has rung to boast that no one has yet been able to crack his annual Christmas quiz. Any reader who can answer the following three questions is in line for a case of champagne:

Which currency would be most audible when the wind blows, especially in the US and Scotland?

Which currency would a Goldman Sachs economist use while running backwards on court in a Latin tennis tournament?

Who does this describe? He was an academic international economist, a soldier in the Finnish army, an adviser to a Wall Street investment bank, involved in one of 1991's major bank scandals, and whose initials are a packet of chewing gum's brand name.

In the event of a tie, the overall winner will be the producer of the best completed limerick the first two lines of which are as follows:

There was a young man
called George Bush
Whose economy needed a
push...

Answers to David Morrison by close of business tomorrow. Telephone 071-774-1000; fax 071-774 1181

Mind-boggling

■ Incredible though it will seem to anyone condemned to make shortish trips to work by British Rail, the cure for the resulting stresses may to be to lengthen the journey by moving home farther away. Or so it would appear from research by Nene College's Dr Tony Cassidy, reported to the British Psychological Society's London conference.

People working more than 70 miles from home have "better psychological well-being" than their locally working counterparts, he said. They are also on the whole physically fitter.

Another trait that might make them attractive to employers is that they're significantly less interested in material rewards while at the same time being keener to win promotion to high-status jobs.

Hail fellow

■ A couple of farmers are discussing ways of surviving in their depressed industry. "I've taken out hail insurance", says one.

"I can understand fire insurance", says his friend, "but how do you make it hail?"

LETTERS

Amendment of pensions

From Mr C.E. Busk.

Sir, The recent amendment to Article 119 of the Treaty of Rome has supposedly clarified the retrospective effect of Barber v GRE. Notwithstanding the clarity with which the amendment is worded it may, in the event, not have the effect which it intends because: the right to a pension is a property right; in Barber the European Court confirmed that Article 119 applied and always has applied to pensions; male members of pension schemes, therefore, have and always have had, a right to the better benefits provided for their female counterparts; on the assumption that Barber does have some degree of retrospective effect, the amendment to Article 119 has the effect of taking away a pre-existing property right.

The effect of the amendment may therefore be contrary to (a) Article 1 of the First Protocol of the European Convention on Human Rights which provides (inter alia) that "no one shall be deprived of his possessions except in the public interest and subject to the conditions provided for by law and by the general principles of international law", and (b) the provisions of the constitutions of various member states against the expropriation of private property.

This amendment may well lead both the European Court of Human Rights and the various national constitutional courts to consider whether the amendment may validly form part of national law.

C E Busk,
Simmons & Simmons,
14 Dominion Street,
London EC2M 2RJ

Non-executive directors can have different role

From Lord Marsh.

Sir, Sir Owen Green is undoubtedly correct in suggesting that the title "non-executive" is misleading when applied to directors of companies.

He is, with, as they say, the greatest respect, completely incorrect in suggesting that there is no difference in the role of "part time" or "independent" directors and their full-time executive colleagues.

Over recent years I have as an independent director of a mixture of quoted and unquoted companies been directly involved in the removal of one chief executive and two cases where the post of CEO was combined with that of chairman.

In both the latter cases I became acting chairman pending the appointment of a new CEO.

I have also been a member within the past three years of two *ad hoc committees of the* board formed to deal with issues from which the full time directors were disqualified as a result of conflicts of interest.

There is nothing particularly exceptional in this experience! It is typical of the increasing realisation that the role of directors not financially dependent upon the company upon whose board they serve can be, and increasingly is, different in significant respects from that of the full-time employed director.

Richard Marsh,
Laurentian Financial Group,
Laurentian House,
Barnwood,
Gloucestershire

When 20 years of tradition with one bank counted for nothing

From Mr P.E. Marks.

The Financial Times could provide a great service to the smaller business by publishing some of what I suspect will be a torrent of letters in response to Mr Gary Neville's comments on companies' expectations of banks (Letters, December 13).

Twenty years of tradition even with one bank was worth nothing in our case, at the onset of the recession. Is Mr Neville suggesting that there was no banking relationship prior to the big about-face? Mr Neville's assessment of the failings of small business would also seem to describe accurately the shortcomings of Brent Walker and Polly Peck. So what!

His final paragraph comes straight from the bankers' standard handbook. Tell 'em where to go!

If there is to be any charity, it would take the form of a suspicion that the banks shouldered the rap for an old-fashioned credit squeeze, the antidote to a politically motivated need for reduced interest rates.

P.E. Marks,
Crop Link (Agriculture),
Norton Ferris,
Kilmington,
Warminster,
Wiltshire BA12 7HT

Confronting Maxwell

From Mr William Shawcross.

Sir, Bronwen Maddox's review ("A mirror on Maxwell", December 13) of Tom Bower's book, "Maxwell, The Outsider" did not do the author full justice.

Bower was almost alone among journalists in daring to confront Maxwell. He did so as a freelance, with no massive resources behind him. The extent of his courage was shown by the way in which he withstood the fury unleashed upon him by Maxwell and his men. His book was painstaking and serious and it is a shame that other journalists, newspapers and bankers did not do more to support Bower and did not learn from his calm exposure of Maxwell's methods.

William Shawcross,
Friston Place,
Eastdean,
Eastbourne, Sussex BN20 0AH

Another shunt

From Mr R J Hunt.

Sir, Observer's comments ("Last word", December 16) on Sir Roy Welensky and Harold Macmillan, later Lord Stockton, on hunting and shunting are not original – hence why not covered by the obituaries – and pre-date their meeting. They are ascribed to many; usually to Sir Fred Burrows on his appointment in 1946 as a governor in India via Ross on Wye station and the railway unions.

R J Hunt,
Lloyds Bank Financial Services,
Canterbury Centre,
Graylaw House,
Watling Street,
Canterbury, Kent

Stena could have chosen better than Sealink to test UK water

From K M Dawson.

Sir, I found Richard Tomkins' article on the crisis at Sealink ("The crisis at Sealink", December 9) very interesting. One angle not covered is how well Stena Line may have done if it had spent its money more wisely. In my opinion "very well" would be the answer. If Stena Line were trying to repeat its Scandinavian successes in the UK, then its hopes were already doomed by the acquisition of Sealink.

As the article made clear ferry operators run their operations from the UK as a mode of transport (albeit not a very cheap or comfortable one), and no more. They cater for goods and people to get from A to B. Consequently, they run from a place that gives a short crossing, gives easy access to roads, and offers cheap port facilities; in other words the people reside in one place and the ferry terminals in another. Add to that the UK's geographical location, which means crossing an uninspiring stretch of water to escape from it, and the result makes clear that what Sealink could offer had little hope of fulfilling Stena's aspirations.

Such a fresh outlook needed a fresh start. In order to succeed Stena need only have picked new ports offering new routes, such as Liverpool-Dublin, Newcastle-Gothenburg/Hamburg or Southend-Amsterdam. For a toe-hold in the UK a Newcastle-Gothenburg connection would have been a good start to test the water.

I am sure the development of new routes based on new port facilities with the assistance it would bring would have been less costly in terms of money and labour relations than the price paid at Sealink. The concept of taking people to "nowhere" (at a far lower price and in far greater comfort than anything offered in the UK) is a successful business in this and other parts of Scandinavia. All it needs is for one ferry operator to know where it is going and how to get there.

K M Dawson,
Frammasintie 2 A 4,
Masala,
Finland

German instincts on Croatia are not based on wartime past

From Jutta Glöckner.

Sir, Re your article, "Germans instinctively back self-determination" (December 16), I hope that one day even the British nation will stop measuring all political actions in Germany by reference to our second world war past.

Do you really think that Chancellor Helmut Kohl is going to recognise Croatia because he feels obliged to the old "Ustasha" regime for its support of Nazi Germany? Do not be absurd!

I myself was 28 years old and had worked in Croatia for several months before I learned about the wartime relationship between the two nations. If you make any attempt to ask an average German in the street about the meaning of the "Ustasha" I am sure that more than a few would take it to be the name of a new toothpaste.

All we see at the moment is that a republic, which is fighting for political and financial independence from a corrupt communist government, is being left to stand alone by the EC, as well as the United Nations. Inactivity or fruitless discussions are not a way to rescue lives in both parts – Serbia and Croatia.

Fourteen ceasefires were signed and afterwards violated by Belgrade. Nevertheless, many governments (as well as your correspondent, Quentin Peel) speak of a "one sided picture of Serbian aggression". It is really unbelievable.

Is it possible that the UK refuses to recognise Croatia and Slovenia because of its own unsolved problem in Northern Ireland?

Please do not criticise Mr Kohl's decision to support Croatia. We solved our national conflicts and wish that Serbia and Croatia had been as lucky to do so also in the same unbloody way.

Jutta Glöckner,
Kirchstrasse 13,
5241 Gebhardshain,
Germany

Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not hand-written. Please set fax machine for fine resolution.

Edward Mortimer

A curious role reversal

Yesterday's EC compromise on the crisis in Yugoslavia should be welcomed

FOREIGN AFFAIRS

A question for your Christmas quiz: on what issue of European politics in 1991 did Mrs Margaret Thatcher agree with Germany, in opposition to the British, French and US governments?

Answer: the former both favoured early recognition of Croatian independence. The latter opposed it.

Mrs Thatcher says that had she still been in power she would have recognised the Croats and supplied them with arms to *defend themselves. I* wonder. This is one issue on which Whitehall and her cabinet colleagues would probably have talked her into a more cautious policy.

Still, by voicing her gut feeling, she has drawn attention to a curious role reversal between Germany and its Nato allies. Remember all those column inches you read at the beginning *of the year, during the* Gulf war, about the fundamental difference between the victor powers of the second world *war and the defeated* powers? The former, we said, felt an instinctive responsibility for the maintenance of world order, and liked the idea of taking action to reverse aggression even well outside their own borders. The latter, traumatised by defeat and occupation, had become allergic to any suggestion of intervention in other people's conflicts, or to sending their armed forces abroad even in a peacekeeping capacity; and looked for ways of solving any conflict by negotiation and compromise.

In the Yugoslav context the line-up is different. Not that the German government is actually proposing to send troops to Croatia: indeed, the fact that it would almost certainly not do so explains the irritation at the German attitude so widely expressed in Whitehall and elsewhere. But German public opinion, including left-wing sections which vociferously opposed the Gulf war, is insisting that "the killing must be stopped" and demanding that the German government, with or without its European partners, take action to stop it. Meanwhile British public opinion seems largely indifferent – there has been nothing like the outburst of popular outrage which greeted the sufferings of the Kurds in the spring – and the British government makes no secret of the fact that it is concerned above all to avoid military involvement.

What is going on? One explanation should be firmly discarded. *This is not a replay of* the second world war. Between Serbs and Croats it may be; but between the former Axis powers and former Allies it is not.

Of course certain basic facts of European geography do not change. Germany and Italy will always feel more directly concerned by events in Danubia and the Balkans than do countries further west. But that observation does not justify anyone saying, or hinting,

It is easy to argue that any given action, will only make matters worse. The trouble is that they are getting worse anyway

that the present regimes and policies in Germany and Italy in any way resemble those of 1941. Hitler and Mussolini were actively seeking to expand at Yugoslavia's expense, and found the disaffection of the Croats against a Serb-dominated centralised state a ready-made instrument of their designs.

The situation today is quite different. Germany and Italy both have unimpeachably democratic and peace-loving regimes which for years have been aware that civil war in Yugoslavia was a possibility, that if it came it could be very unpleasant, and that it would have consequences for Europe as a whole but especially for Yugoslavia's neighbours. For a long time they tried to deal with this problem by propping up the federal government and encouraging it to adopt reforms.

That policy failed. Slovenia and Croatia declared their independence. Serbia and the Yugoslav army refused to accept it, and have now occupied about one third of Croatia's territory, ostensibly to defend the Serb minority but evidently also with the object of creating a "viable" Serbian state with an outlet on the Adriatic. The rest of Europe has indeed become involved, but Germany and Italy feel more involved than most. They have backed the attempt by the EC and Lord Carrington to negotiate a compromise peace, but that has not succeeded either. The rest of us may conclude that "if these people are *determined to kill* each other there is nothing we can do about it", but for Germany and Italy, doing nothing is not such an easy option.

That is on the level of governments. On the level of public opinion, something else has happened, which in turn (precisely because these are democracies) feeds into government *policy. German media coverage* of the war has been more extensive than British, and no doubt more uncritically pro-Croat (though the British coverage has hardly been pro-Serb). The Croat diaspora in Germany is much larger and more influential than in Britain, the Catholic church being one important vehicle of its influence.

But that does not mean German public reaction can be written off as the product of a Croat conspiracy. One does not need to think the Croats model democrats (which clearly they are not) to see that they are indeed victims of aggression, who are being punished for an ill-advised attempt to exercise their right of self-determination.

It is hard for Germans, who after all started the current bout of frontier changes in Europe by an act of self-determination of their own, not to sympathise with the Croats' attempt to follow their example. And it is hard for them to understand, after being so roundly abused for their wimpishness in the face of Iraqi aggression against Kuwait (compared to which Croatia is almost a model of democracy), why the same people who abused them now refuse to do anything to check Serbian aggression against Croatia.

Of course there are good reasons, the most important being practical rather than legal. Bitter experience in Northern Ireland and elsewhere has taught the British that there are no easy solutions to this kind of conflict, and that it is much easier to get involved than to get out afterwards. It is also easy to argue that any given action, including recognition of Croatia and Slovenia, will only make matters worse. The trouble is that they are getting worse anyway.

The "even-handed" approach so far adopted by the EC and Lord Carrington is suspect for two reasons. First, it is not really even-handed to withhold recognition from the two breakaway republics. On the contrary, by preserving the fiction of a single Yugoslavia that approach gives a spurious legitimacy to the so-called Yugoslav National Army. Secondly, it is not necessarily right to be even-handed between the strong and the weak, or between the aggressor and his victim.

Not recognising the republics has made it very difficult to apply any kind of sanctions to Serbia and the army without penalising their victims at the same time.

The compromise reached in Brussels early yesterday should be welcomed. It is certainly better for the EC to act together in this issue than for different west European states to back opposite sides (which would be dangerously reminiscent, not of 1941, but of 1914). And it is right in substance for recognition to be made conditional on respect for human and minority rights and on willingness to settle frontier and other disputes peacefully: a precedent which should be followed when recognising the successor states of the former Soviet Union.

Whether such conditions can actually be enforced in the middle of a war is another matter. With hindsight, it seems a great pity that this approach was not tried when Slovenia and Croatia first declared their independence, before the serious fighting started.

PERSONAL VIEW

Heavy hand of regulation creates policy dilemmas

By John Surrey

No one would deny the need to regulate privatised utilities. But if, as in the British gas industry, regulation spreads beyond the original statutory intent as approved by parliament, it can create public policy problems.

The public policy dilemmas are starkly *illustrated by the* five-year battle between British Gas and the regulatory authorities. British Gas was privatised *in 1986 virtually intact.* The interests of the 17m or so tariff consumers were to be protected by a public supply *obligation on British Gas and a* price cap formula. For customers in the contract market, only a "light touch" of regulation was considered necessary. The regulator was to be a mere umpire adjudicating between the consumer and producer.

Five years on, government policy has changed significantly. In March 1991 the regulator tightened the price cap formula to encourage British Gas to buy the cheapest gas available and to prevent excess profits. That apart, numerous regulatory interventions since 1988 have all sought to "kick-start" competition in the contract market. *Yet nowhere* have the public policy advantages and disadvantages of competition been set out by the regulatory authorities or the government. The regulation just seems to have spread.

The initial impetus to intensify competition was an inquiry by the Monopolies and Mergers Commission (MMC) which forced British Gas to publish price schedules of firm and interruptible supplies on a non-discriminatory basis, and to publish the information on third-party carriage necessary to assist competitors.

To boost the pace of competition, the regulator pressed British Gas to release gas it already had under contract. British Gas responded reluctantly with a system of swaps *whereby it gave up some of its* contracted gas supply to the oil companies which would replace it later with an equal *volume of new gas. The regula*tor wanted competitors to obtain 30 per cent of the "firm gas" element of the industrial *market by October 1993.*

The effects of these artificial props to competition were that:

- Following large reductions *in British Gas carriage* charges the regulator concluded that these were no longer an obstacle to competition.
- The price *schedules created* losers as well as winners. When the schedules were adjusted to accommodate the losers, the schedules become increasingly complex and difficult to operate.
- The oil companies obtained 75 per cent of the new power station market for gas and a growing share of the traditional "firm gas" market.
- In the year to June 1991 contract gas for power generation had risen from nil to 4bn therms a year, *representing* a 60 per cent increase in the whole contract market and equalling 20 years' growth of the much bigger tariff market.

Despite these measures, the competition authorities were still not satisfied. At the Conservative party conference in October, Mr Peter Lilley, the trade and industry secretary, announced that British Gas must hive off transmission as a separate activity, and must give up 75 per cent of its contracted gas. It was also announced that the monopoly over the tariff market was to be abolished and that unless British Gas accepted these *changes* the MMC would conduct a further inquiry.

Regulation has spread far beyond the "light touch" intended. Although regulatory intervention should wither as competition intensifies, it shows no sign of doing so.

Yet there are limits to how far the regulator can go. The regulator must take account of British Gas's legitimate business interest and its statutory public supply obligation. The government's own position is delicate, since it has to consider the impact of an evolving regulatory policy on, for example, share prices and the general uncertainty this creates.

However, it is important that the heat of the battle does not obscure the public policy issues which have arisen as the regulation *has spread.*

First, the large volume of gas contracted for power generation has transformed the gas market from one of abundant to tight supply and accelerated the depletion of North Sea gas reserves. *Market forces* determine that most gas that becomes available goes to the power station market as producers *prefer long contracts* with large volumes. Opinion is divided on how long the reserves will last and on the effects of new gas imports; but prices are likely to rise due to competition for the limited gas supplies available in the 1990s.

Second, deciding when competition would be sufficient was always going to be difficult. The recently reported suggestion that British Gas should give up 75 per cent of the whole contract market is arbitrary, the more so because most of the competitors so far are oil companies. They themselves are vertically integrated and are selling gas into the market in which they have a large stake as oil suppliers.

Third, if it wishes to open up the tariff market to competition, the government should show that this is technically feasible without excessive costs and without compromising supply security.

Fourth, the role of regulators is to implement policy as approved by parliament. Yet regulation has spread far beyond the statutory intent without the involvement of parliament. It is therefore important for parliament to oversee developments in regulatory policy, perhaps through a joint committee of both *Houses given the limited terms* of reference of the existing select committees.

It is time to stop pursuing "competition" as an end in itself and to consider these wider public policy issues.

The author is a professor at the Science Policy Research Unit, University of Sussex. This article is summarised from a book to be published by the Max Planck Institute in March.

FINANCIAL TIMES
Wednesday December 18 1991

Japan enters the economic unknown

Robert Thomson analyses the likelihood of a 'recession' in 1992 – growth below 3%

A SOFT landing or hard times ahead? Japan's research institutes and financial companies cannot quite agree if the country's slowing economy is on course for a Japanese-style recession – growth of less than 3 per cent – in the coming year.

All are agreed that growth will be slower than in the current fiscal year to end-March, but the inconsistency of leading Japanese economic indicators has inspired very different interpretations of the likely severity.

Officially, Japan is expecting 3.8 per cent growth in gross national product (GNP) this fiscal year, though everyone except the government believes that this target is out of reach. The forecasts of 18 institutions fall between 3.3 and 3.6 per cent, with the Nomura Research Institute (NRI) expecting 3.4 and Yasuda Mutual Life Insurance a more optimistic 3.6.

The differences in outlook are far greater for fiscal 1992. NRI is particularly pessimistic, forecasting only 2.3 per cent. The Bank of Tokyo predicts growth of 3.3, as does Yasuda Mutual. Sumitomo Life Research Institute expects 3.1, Mitsui Trust Bank 3.0, Daiwa Research Institute 2.8 and Hokkaido Takushoku Bank 2.6.

There is a general presumption that the Bank of Japan will lower the official discount rate (ODR) from the present 5 per cent to 4 per cent during the year, but NRI believes that the stimulus will come too late to revive private capital investment, which it suggests will fall by 1 per cent in the current year.

Capital investment is the source of much of the disagreement. Most institutions are confident that consumer spending will remain healthy, and increase by at least 3 per cent and possibly by as much as 3.4. But the range of predictions for capital investment starts at a decline of 0.4 per cent, courtesy of Nikko Research, and stretches to a 4.3 increase seen by the Bank of Tokyo.

The capital investment figure is well down on the 20.8 per cent reported by the manufacturing sector last year, with companies unable to maintain the investment pace because of higher interest rates, the difficulties of raising funds on a weak stock market, and a downturn in profits in the current year.

Nikko Research says that its forecast for a decline in capital investment is based on expectations that companies will have no reason to expand production capacity.

Manufacturing industry had expanded capacity in the hope of ever-rising sales, but demand has cooled this year, and inventories are accumulating.

"Improvement of corporate liquidity is expected to be hampered by the slow recovery of the stock market, lending restraint by financial institutions wanting to meet capital adequacy requirements, and the massive redemption of equity-linked financing issues beginning in fiscal 1992," Nikko Research explained.

Foreign brokers' predictions vary as widely as their Japanese counterparts. Barclays de Zoete Wedd (BZW) forecasts GNP growth for fiscal 1992 at 2.5 per cent, having just revised down the estimate from 2.9 per cent to reflect the "delay in US recovery."

In line with virtually all Japanese institutions, BZW presumes that growth will be slowest in the April-September half but will gain momentum later in the year. Goldman Sachs, the US broker, predicts 3.1 per cent growth next year: "We expect growth to bottom in the first half of fiscal 1992 and consolidate towards a recovery in the second half."

The forecasts, by both Japanese and foreign institutions, tend to support the Bank of Japan's argument that the economy, while slowing, is not in danger of stalling. Mr Yasushi Mieno, the bank's governor, insists that capital investment will remain brisk because the labour shortage is encouraging companies to invest in labour-saving technology.

Mr Mieno also argues that the economy is still recovering from the financial excesses of the late 1980s, though he is concerned about a fall in business confidence in recent months. "The current phase of adjustment for past strong economic expansion will end sooner or later, and the economy will come to show proper growth."

While growth is slowing, Japanese institutions expect the politically sensitive trade and current account surpluses to remain at near-record levels next year. Mitsui Taiyo Kobe forecasts a trade account surplus of $113.7bn, surpassing the 1986 record of $101.6bn, and a current account surplus of $82.9bn, compared with a 1986 record of $94.1bn.

Nikko Research says that the current account surplus this year is likely to be $74.8bn, more than double last year's $33.7bn, but will rise more modestly next year to $76.9bn. It suggest that the trade account surplus will be fuelled by a recovery in the international economy next year and reach a record $104.8bn.

As for the Japanese currency, which closed yesterday in Tokyo at Y128.28 to the dollar, there is a shared sense that there will be no dramatic movements in the coming year. Forecasts range from around Y125 to Y135 for the average yen-dollar rate for the year.

Mitsubishi Bank says that the general trend will be towards a stronger yen, with an average rate of Y125, dependent on fluctuations in interest rates and the fate of the US trade deficit.

Japan's household consumption in October rose 3.1 per cent from a year earlier, the sixth consecutive month of year-on-year growth, according to the Management and Co-ordination Agency. The agency said that the personal consumption trend appeared firm in spite of the slowing economy.

THE LEX COLUMN

The gigantism of Glaxo

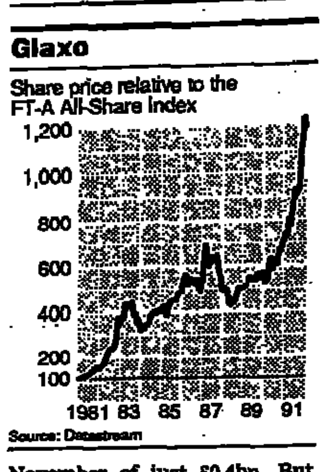
The inexorable rise of the Glaxo share price is becoming slightly unnerving. It is natural for a non-cyclical company with a legal monopoly in its products to do well in a recession. But Glaxo is becoming an investment monster. With a market value of £24bn, it is not only the biggest stock on the UK market. It is also bigger than most UK market sectors: bigger, for instance, than water and electricity put together, or than the entire UK quoted insurance industry. Among pharmaceutical stocks, Wellcome also did well this year, but it did badly in 1990. Glaxo has been outperforming for three years, with the rate of climb accelerating. The risk by now is that investors are throwing money at a large, recession-proof international stock without regard to the fundamentals.

It would be only fair to point out that Glaxo's outperformance in this recession is less remarkable than in the last. In the two years 1981-82, the shares outperformed by 250 per cent. In the last two years they have done little more than double against the market. But by the end of 1982, Glaxo's market value was only in line with other stalwarts such as BAT, ICI and Marks and Spencer. It is now the size of all three. And in the following year, it is worth recalling, Glaxo went on to underperform the market by nearly 10 per cent.

Glaxo's defenders would argue that its valuation is only in line with that of its great rival, Merck. But Merck too has outperformed handsomely in the past two years. And as Fisons demonstrated last week, drug company earnings are scarcely riskless.

Leave aside the odds that any of Glaxo's new drugs could prove toxic, the arguments over Zantac's US patent or the huge margin of error in forecasting drug revenues. The fact remains that Glaxo's return on capital has fallen for five years in a row, while its earnings growth is a quarter what it was in the mid-1980s. At yesterday's 829p, the shares are on twice the UK market's historic multiple and less than half its yield. There is a respectable view that in the long run Glaxo is never worth selling. At present, it is not worth buying either.

FT-SE Index: 2,432.9 (-7.9)



PSBR

There were more red faces than red ink yesterday when the UK government announced a provisional public sector borrowing requirement for November of just £0.4bn. But while the figure was an embarrassing £1.5bn-£2bn short of City expectations, the gilts market remained unmoved. It will clearly take more than one month's figures to convince investors that the long-term trend is not deteriorating. Even the Treasury admits that November was distorted to the tune of at least £0.5bn by exceptional tobacco duty payments ahead of an industry price rise.

With more than 25 per cent of the year's corporation tax receipts due in January, moreover, there is still scope for the last four months of the year to disappoint. The market is already thinking about 1992-93 and the likely impact on the tax base of high unemployment and recession.

Racal/Williams

Institutions who managed to sell their Racal shares to Williams for cash at 57p last week have had an easier time than those who must make up their minds by Sunday whether to accept Williams' paper. The choice is more finely balanced than it looks, even though the market currently favours Racal. At 48p Racal is some 19 per cent below its peak, which suggests that much of the bid premium is out of the price already. On the basis of recovery prospects a year out the shares look cheap.

That is all right, however, only for those who believe Racal's recovery story. The market has been disappointed in its expectations of Racal before. Sir Ernest Harrison's forecast of £50m in pre-tax profits for 1991-92 was made without disclosing full-year research and development expenditure. It is thus difficult to tell how durable is the turnround on which the market is now projecting a figure of some £100m for 1992-93. The downside may be greater than the market is currently willing to accept.

Williams' problem is that it is refusing to overpay and its tactics have tended to confuse. Yet its management is traditionally more determined at tackling costs than that of Racal and should prove capable of squeezing substantially higher margins out of the target. It would also find it easier to generate the cash needed to develop the electronics business than would Racal after a Chubb demerger.

Williams may have underperformed the market by 8 per cent since the bid was launched. That could change if, third time lucky, it finally won a contested bid.

Cable & Wireless

Now that retail investors have received their BT share certificates, perhaps they should consider using their share shop vouchers to effect a quick switch into Cable & Wireless. The logic is simple enough. BT's growth is slowing down and the next few years will be spent defending its excessive market share against the regulator and C & W's Mercury subsidiary. In particular, there is no guarantee that the relatively light regulatory regime to date will continue next year. While it will continue to generate large amounts of cash, BT will be struggling to preserve its above-average rate of return.

C & W, by contrast, is in the rather better position of owning a spread of assets, not least Mercury, in which other international telecoms companies are interested. Talk of an investment by AT&T is unreliable at this early stage, but is doubtless a guide to the future. If a clear value is placed on the growth potential in Mercury, the rest of the group will be worth more than its present share price implies. Since its interim results last month, C & W has outperformed the market by 10 per cent. The trend could continue.

Norwich Union

The cuts in reversionary bonuses announced yesterday by Norwich Union are slightly depressing. Norwich has attracted publicity lately by sharply increasing its weighting of bonds versus equities. It now appears it does not expect particularly good real returns in the 1990s from the bond-market either.

Germany to recognise breakaway republics despite EC delay

US welcomes EC Yugoslavia deal

By Our Foreign Staff

THE European Community's compromise on the recognition of Yugoslav republics is unlikely to resolve differences in the community over the timing and speed of the recognition process.

The US yesterday welcomed the EC's decision to postpone until January 15 recognition of Croatia and Slovenia as independent republics, saying this would allow more time for the efforts of Mr Javier Pérez de Cuéllar, UN secretary-general, and Lord Carrington, the European Community's mediator on Yugoslavia, to find a peaceful political settlement.

However, in Dresden a jubilant Chancellor Helmut Kohl announced that Germany would press ahead immediately with its plan to grant diplomatic recognition to Croatia and Slovenia. He said the EC compromise on conditional recognition was a great victory for Germany's foreign policy, as well as for Europe.

Bonn's 11 partners (with the exception of Denmark), the Security Council and – belatedly – the US had all urged restraint on Germany.

In Brussels yesterday, the indication was that the deadline for a final EC decision would be January 15, leaving a one-month breathing space which could be used to revitalise international peace efforts to halt the fighting.

EC foreign ministers said in their final declaration early yesterday that certain conditions for recognition, including human rights and guarantees for the ethnic minorities, should be met before the January deadline.

Lord Carrington said he expected Croatia to meet the EC's conditions. However the chairman of the EC-sponsored peace conference on Yugoslavia said Croatia would have to accept more rights for the Serbian ethnic minority within its borders than provided for in its present constitution.

Guarantees for the rights of ethnic and national groups and minorities, in accordance with commitments under the Conference on Security and Co-operation in Europe's charter, form one of the most important guidelines for the recognition of states laid down by the EC at their meeting on Monday.

Reports from Croatia indicate that these commitments have frequently not been respected in practice. But Lord Carrington said the Croatian authorities had already let it be understood that they would be prepared to remedy this situation.

In Serbia, thousands of Serbs, who have fled from the fighting in western Slavonija, central Croatia, threatened to march on Belgrade, the Serbian capital, in protest at the federal army.

The refugees said the army had failed to protect them against a Croatian offensive during which Serbian-inhabited villages were burned.

Twelve UN military experts will arrive in Belgrade today to finalise whether peace-keeping troops will be sent to Croatia, and to the central and ethnically-mixed republic of Bosnia-Hercegovina.

Ambitions sink, Page 3
Curious role reversal, Page 13

Helmut Kohl tells the Christian Democrat party convention in Dresden yesterday that Germany will recognise Slovenia and Croatia

London brokers fined

Continued from Page 1

est fines and reprimands.

The disciplinary actions follow moves by Fox and five broking firms to create a false impression about the extent of investor interest in a market in property futures created by the exchange early this summer.

Fox itself traded in the contract through one broker, Marshall French & Lucas, in the process incurring losses of £162,055 ($294,940). Also, Marshall and four other firms – Refco Overseas, Sucden (UK), Prudential-Bache (Futures) and Hambros Bank – traded between themselves on a no-loss basis.

Some 86 per cent of all trades in property futures were conducted in such "non-commercial" ways before the market was closed this autumn, the SFA said. Just 7 per cent of business done in the market represented genuine trades for investors, while a similar proportion were genuine arms-length trades between market makers.

The five brokers all admitted to the charges against them, and had "agreed a settlement" of the disciplinary actions, the SFA said. The fines ranged from £60,000 to £80,000.

The low fines recognise the fact that Fox instigated the market-rigging, rather than the firms concerned, and also reflect the ability of some of the firms involved to pay without suffering financial hardship. Mr Mark Blundell, chief executive of Fox, resigned when the scandal broke.

The regulators have passed their findings to the Department of Trade and Industry, the body responsible for bringing criminal prosecutions under the Financial Services Act for market-rigging.

Maxwell Communication seeks creditor protection

Continued from Page 1

into default and could have triggered receivership.

● Although its banks had given approval to freeze loan repayments until Friday, some banks had not signed this standstill agreement.

Banks said yesterday they were "surprised" and "disappointed" by MCC's decision to file for Chapter 11 and go for administration.

The company, which has total debt of £1.5bn, was conducting negotiations with a steering committee of banks, which was led by Credit Lyonnais of France and included Chase Manhattan of the US, Fuji Bank of Japan, Union Bank of Switzerland, Barclays of the UK, WestPac of Australia and Canada's Bank of Nova Scotia.

Bankers fear that they may have to write off up to 50 per cent of their loans to MCC. The banks hardest hit are likely to include Credit Lyonnais, which is thought to have a £150m exposure to MCC, Bayerische Vereinsbank of Germany, owed £85m, Swiss Volksbank, owed £42m, and Swiss Bank Corporation, owed around £60m. Direct loans by UK banks are small.

The second damaging effect of the request for administration is that it confirms MCC's shares are valueless. Banks with loans to the Maxwell family's private companies secured on MCC shares are likely to face big losses on these loans. Lloyds, the UK bank, is believed to have loans of at least £50m to the private companies which are unsecured or backed by worthless MCC shares.

Gatt nations in last attempt to agree farm subsidies cuts

By David Gardner in Brussels

THE European Community and the US will today make a last attempt to agree on how to reduce farm subsidies within the Uruguay Round trade talks, before Mr Arthur Dunkel, director-general of the General Agreement on Tariffs and Trade, puts forward his "take-it-or-leave-it" draft compromises on the whole round on Friday.

Mr Ray MacSharry, EC agriculture commissioner, and Mr Ed Madigan, the US secretary for agriculture, meet in Brussels today to try to bridge the two main remaining gaps.

The most important concerns the mix in the planned reduction of export subsidies for cereals. The US wants the broadly agreed 35 per cent cut over five or six years to fall almost entirely on the volume of the EC's subsidised exports.

Mr MacSharry has said merely that a 35 per cent cut in budgetary outlays for exports would guarantee a reduction of at least 25 per cent in export volumes. Senior EC officials say any larger cut would cripple the political basis on which the European Commission is trying to sell the reform of the Community's farm regime which would make the cuts possible.

There is also no final EC-US agreement on what subsidies should be allowed into the Gatt "green box" for payments held not to distort trade, officials in Brussels said.

But the hardest nut to crack remains the volume of exports, particularly of wheat. The exact figures depend on the base period from which the cuts are to be made.

A senior Commission official warned that "the Americans have a very precise idea of what they want, of where their bottom line is, and they don't care how they get it as long as they get it".

The US is aiming for a volume cut of about 14m-15m tonnes of wheat a year, against the reduction of 10m-11m tonnes the EC believes it can deliver. Even so, a number of member states led by France last week accused Mr MacSharry of caving in to the US.

Anti-dumping deadline, Page 5

WORLDWIDE WEATHER

		°C	°F
Ajaccio	S	14	57
Algiers	F	15	59
Amsterdam	Fg	5	41
Athens	S	14	57
Bahrain	S	19	66
Bangkok	F	32	90
Barcelona	S	11	52
Beirut		-	-
Belfast	S	9	48
Belgrade	Fg	-3	27
Berlin	S	4	39
Biarritz	S	15	59
Bombay	S	30	86
Bordeaux	S	12	54
Boulogne	Dr	9	48
Brussels	C	8	46
Budapest	Fg	-3	27
Buenos Aires	R	30	86
Cairo	S	18	64
Cape Town	S	24	75
Caracas	C	28	82
Casablanca	S	17	63
Chicago		-	-
Cologne	C	4	39
Copenhagen	C	4	39
Corfu	R	13	55
Dallas	S	6	43
Dublin	R	11	52
Dubrovnik		-	-
Edinburgh	R	9	48
Faro	F	17	63
Florence	S	3	37
Frankfurt	Fg	1	34
Geneva	F	5	41
Gibraltar	C	16	61
Glasgow	R	10	50
Helsinki	C	-1	30
Hong Kong	S	23	73
Innsbruck	S	0	32
Inverness	R	8	46
Islamabad	C	19	66
Istanbul	S	9	48
Jakarta	R	30	86
Jersey	F	11	52
Johannesburg	F	23	73
Lima		-	-
Lisbon	C	12	54
London	C	12	54
Los Angeles	F	15	59
Luxembourg	Fg	5	41
Madeira	C	18	64
Madrid	Fg	4	39
Majorca	F	15	59
Malaga	S	16	61
Malta	F	14	57
Manchester	R	9	48
Manila	F	31	88
Melbourne	C	16	61
Mexico City	C	18	64
Miami	F	13	55
Milan	S	3	37
Montreal		-	-
Moscow	Sn	-4	25
Munich	R	2	36
Nairobi	F	25	77
Naples	S	11	52
Nassau	C	24	75
New Delhi	S	21	70
New York	C	-4	25
Nice	S	10	50
Nicosia	S	17	63
Oporto	S	14	57
Oslo	C	4	39
Paris	F	6	43
Peking	S	2	36
Prague	Fg	-7	19
Reykjavik	Sl	1	34
Rhodes	F	16	61
Rio de Janeiro	F	39	102
Rome	S	10	50
Salzburg	Sn	-1	30
San Francisco	C	7	45
Seoul	R	6	43
Singapore	R	29	84
Stockholm	F	3	37
Strasbourg	R	4	39
Sydney	C	23	73
Taipei	F	25	77
Tangier	S	17	63
Tel Aviv	S	17	63
Tenerife	Dr	19	66
Tokyo	S	15	59
Toronto	Sn	-6	21
Tunis	F	13	55
Valencia	S	15	59
Venice	S	8	46
Vienna	Fg	-4	25
Warsaw	S	-2	28
Washington	C	-1	30
Zurich	R	3	37

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

A&P supermarket chain falls to $3.92m

Profits at Great Atlantic & Pacific Tea Company, better known in the US as the A&P *supermarket chain, slumped to $3.92m after tax* in the three months to end-November, compared with $32m in the same period a year before. The fourth-largest supermarket group in the US, with 1,251 outlets, has now registered net profits of $54.6m in the first three quarters of its financial year, against $119.4m last time. Page 17

Hoesch and Mannesmann link up

Germany's heavy industrial core, which is feeling the pressure from overseas competitors and poor market conditions, was knitted further together by the announcement yesterday that Hoesch and Mannesmann, two of the country's leading steel and engineering concerns, are to join forces in the manufacture and marketing of precision tubes and pipelines. They will each take a 50 per cent stake in the new company, which will be based near Dortmund and employ 4,500. Page 16

Top marks for Mexican market

Mexico's *bolsa, one of the world's top performing* stock markets, showed relief after a presidential meeting at the weekend which confirmed Mexico's and the US's commitment to push through a free trade agreement "as soon as possible". Although the bolsa had shown steady falls in the past few weeks, it remains 1991's best performer, of those markets included in the FT-Actuaries World Indices, with a gain of 115 per cent in local currency terms. Page 38

Babcock shines through gloom

Babcock is one of the few companies to stand *out from the gloom surrounding UK engineering* companies. After an 11 per cent rise in pre-tax profit in the six months to September 30, the annual figure is expected to approach £50m ($91.3m) compared with last year's £46.7m. Page 20

Oppenheimer taps into tantalum

Mr Harry Oppenheimer, former chairman of Anglo American of South Africa, is backing a project in Western Australia designed to bring long-term price stability to the tantalum market. He is investing, through a family company, in Gwalia Consolidated, an Australian group *which owns Greenbushes, one of the western* world's three big operating tantalum mines. Page 22

Southern Electric dividend rises

Southern Electric, the electricity utility serving the south of England, yesterday reported a pre-tax profit of £13.7m ($25m) for the half year to September 30, against £3.2m on a pro forma basis the previous year. The interim dividend of 4.9p per share gave a real increase of 8.5 per cent. Page 21

Japan revises new share sales

The Japan Securities and Dealers Association and the Tokyo Stock Exchange plan to revise the auction system for companies offering shares to the public for the first time. Page 18

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				Icetal	242	+	10
Rises				**Falls**			
Aachen Mch	815	+	50	Gaumont	610	−	28
Colonia Konz	870	+	10	Merlin-Gerin	462	−	17
Linotl	455	+	15	Pollet	397	−	23
Falls				Skis Rossignol	780	−	20
AG Ind & Verk	630	−	12	**TOKYO (Yen)**			
Berliner-Kraft	120.5	−	5.5	**Rises**			
Porsche	510	−	20	Hogy Medical	5800	+	400
NEW YORK ($)				Kanda Tsushin	540	+	50
Falls				Nippon Lace	570	+	55
A&P	26¾	−	1⅞	Uchida Oil	533	+	45
Amgen	59⅞	−	2⅞	**Falls**			
Dillard Dept	118	−	7	Best Denki	1320	−	80
Federal Express	32¾	−	1⅞	Fujiko	702	−	57
Intl Paper	63⅞	−	1				
Union Camp	45⅜	−	1⅞				
PARIS (FFr)							
Rises							
BSN	963	+	23				

New York prices at 12.30.

LONDON (Pence)				Berisford Intl	18	−	3
Rises				Blue Circle	212	−	13
Baldwin	63	+	4	Cocdan	58	−	5
Clydesdale Inv	85	+	3	Heywood Williams A	105	−	15
Condor	25	+	3	Merchant Retail	32	−	4½
Halma	159	+	9	Mowlem (J)	157	−	19
Harris (Ph)	136	+	8	NatWest Bank	288	−	7
Lee (Arthur)	106	+	5	Stanhope Props	31	−	5
Office&Elect	40	+	4	Tarmac	117	−	10
Sears	93	+	3	Taylor Woodrow	113	−	15
Ultramar	266	+	14	Wedding Office	19	−	3
Falls							
Ackroft Assoc	28	−	3				
BET	165	−	7				

French group's expansion into Italian market signals new shake-up of industry

BSN to control Italian water brands

By William Dawkins in Paris

BSN, the leading French foods group, yesterday announced that it was poised to take full control of four Italian mineral water brands, thereby signalling a fresh reorganisation of the European mineral water industry.

The acquisition, from Ifil, an Agnelli family holding company, makes BSN Italy's leading supplier of mineral water.

The deal is also part of a wider extension of BSN's interests in Italy, where the French group has been expanding since a share exchange in 1987 with interests controlled by the Agnelli group, its powerful local partner. This comes weeks after the Agnellis launched a bid for the company that controls Perrier, the leading French mineral water group, and after Nestlé, the Swiss food multinational, bought out the minority shareholders in Societe Generale des Eaux Minerales de Vittel, another French brand.

BSN said it was to buy the 50 per cent of shares it does not already own in Sifit, a holding group it jointly owns with Ifil, which controls the Sangemini, Ferrarelle, Boario and Fabia mineral water brands. There was no connection with the Perrier bid, BSN emphasised.

Sifit also owns 8.12 per cent of Peroni, which as Italy's largest brewer controls 40 per cent of the domestic market.

This will lift BSN's stake in Peroni to 24.5 per cent, with the rest in the hands of the Peroni family. The French group is already Europe's second largest beer group, through its ownership of brands such as Kronenbourg and Kanterbräu.

In addition, BSN is to buy from Ifil 10 per cent stakes in Star and Starlux, the Italian and Spanish groceries groups, thereby lifting the French company's holding in both to 45 per cent. The remaining shares are held by the Fossati family.

BSN's other main Italian interests include Galbani, the leading cheese group jointly owned with Ifil, and the Panzani and Agnesi pasta brands, the second largest suppliers with a 12 per cent combined market share.

Ifil, which is the second largest shareholder in BSN, with 5.7 per cent of the French group's share capital, will continue to advise the French group on how to develop its Italian food interests.

Thyssen profits decline for third year

By Christopher Parkes in Bonn

THYSSEN, the German industrial and trading group, suffered its third consecutive profits fall in the year to the end of September as its steel and engineering interests were squeezed by low demand and falling prices.

Net profits fell by a quarter to DM520m ($329.4m) from DM690m last time and DM825m in 1988-89. Turnover was unchanged at DM36.6bn compared with DM36.2bn in the previous year.

Declaring the results "satisfactory" and announcing an unchanged DM10 dividend, the group warned that it could see no clear signs of an early upturn in its main overseas markets, and that growth was slowing noticeably in Germany. Further steps would have to be taken to restructure and reduce costs in its steel operations, it said.

Turnover at Thyssen Edelstahl, the special steels division, fell 14 per cent to DM3.3bn. The company said, however, that losses would not be as high as the pre-tax deficit of DM176m reported in 1990.

There has been no discernible progress in negotiations over co-operation in special steels with Krupp, and there have been unconfirmed reports that Thyssen Edelstahl plans to reduce costs by a third over the next 12 months. About 10 per cent of the division's 15,000 jobs might be in danger.

Sales at Thyssen Stahl, the mainstream steel business, rose 7 per cent to DM10.4bn, but the result was distorted by the inclusion of turnover from businesses absorbed by the division from the group's recent acquisitions. In manufacturing and investment goods, sales rose 6 per cent to DM8.4bn. Thyssen Handelsunion, the trading and services arm, reported a 19 per cent sales increase to DM15.3bn.

The results were better than many analysts had feared in the light of conditions in the steel market and Thyssen's role as Germany's leading steel manufacturer. Even so, most expected the current year's results to be flat at best.

The group's shares rose DM2.50 in Frankfurt yesterday to close at DM192.40.

Warburg buys back new BT shares

By Roland Rudd in London

SG WARBURG, the UK government's lead adviser in the BT sale, has been buying back partly paid BT shares to stabilise the price.

The partly and fully paid BT shares have come under pressure over the past week. Yesterday, fully paid shares fell 2p to 324½ while partly paid fell 1½p to 123p.

However, the notional time value of money – which takes into account the value paying the new shares in installments – has increased from 20.5p to 23.5p.

This indicates that SG Warburg has been stabilising the price of the partly paid shares, as it said it would before the sale. The government did not want small investors to make a big profit, but it does not want to see a moderate profit wiped out.

Retail investors paid 110p a share compared with the 125p paid by institutional investors.

However, both groups are already selling. According to Mr Laurence Heyworth, telecommu*nications analyst at Robert Flem*ings, one reason is the stabilisation process ends on January 7.

Small investors today receive their certificates, which could lead to more selling.

Government advisers expected most investors to keep their shares until January 13, after which the holders of partly paid shares are eligible for a dividend.

However, some analysts believed the shares were always going to fall. This was because *the government had been seen to* create an "artificial market" by warning institutions they would not receive all the shares they applied for if they sold large amounts of BT shares before the sale. This had the effect of pushing the share price above 400p.

There are two other main reasons why the institutions do not have much appetite for BT shares.

First, BT's prices will be scrutinised in January when Oftel, the industry regulator, publishes its consultative paper on the subject. BT has been criticised for making excessive profits.

A recent Financial Times analysis showed the company could afford to cut prices by £1bn ($1.82bn) a year and still make *profits comparable with other* telephone companies.

Second, while the opposition Labour party has abandoned plans to renationalise BT, it favours tougher regulation. With a general election due next year, Labour's policies are increasingly relevant.

When giants start to feel threatened

Norma Cohen on what is at stake in the row over 'polarisation'

To lose one member might be regarded as a misfortune; to lose two looks like carelessness. Yesterday, the UK's *Unit Trust Association lost its* second big insurer in two days.

On Monday Prudential, the UK's largest insurance company, left the association over the group's public attack on the sales tactics of life insurers. On Tuesday, Legal and General followed suit, and several others say they may also leave.

There is more at stake in this *dispute than a trade association* statement. This disagreement reveals an increasingly acrimonious battle over the future of the distribution system for retail financial services. "The person who controls the distribution controls the business," says Mr Peter Taylor, managing director of Sun Alliance Life Assurance.

There is a lot at stake: for years, UK households have become used to buying investment products through the big insurance companies. Yet the insurers' traditional door-to-door insurance sales force is an increasingly ineffective tool. So the insurance companies have rushed to sign up other outlets – such as banks and building societies – who will sell their products exclusively.

That is where the regulatory battle starts, with a rule known as "polarisation". As part of the reform of UK financial markets in the 1980s, the regulators forced anyone engaged in marketing investments – from solo insurance salesmen to a 3,000-branch clearing bank – to choose between tying to a single investment company or selling the products of all companies on an equal basis.

Recently, the Securities and Investments Board reaffirmed that principle – but went on to ask whether polarisation should apply to all investment products or simply to those whose lack of transparency requires particularly careful selling.

This seemingly minor change is in fact of great importance. If some investment products, such as unit trusts, are to be freed from polarisation rules, it will give them access to far wider *channels of distribution than are* available for other investment products such as life assurance. De-polarising unit trusts would allow the products of one provider to be sold even by an agent tied to a competing provider.

Since polarisation rules came into effect, life insurers have scrambled to create exclusive distribution networks that would *sell their products as tied agents.*

On average, as much as 12 per cent of life insurance sold in 1990 was sold through tied building society or bank agents, and that percentage is rising rapidly.

Insurers initially opposed polarisation when it was first broached by regulators in the mid-1980s, but now that they have built big tied distribution networks, *they have come to* embrace it wholeheartedly. "We support the retention of polarisation because we think it's helpful all around," says Mr Brian Sharp, of the Association of British Insurers.

Without polarisation, say insurers, consumers will not know whether they are receiving independent advice or the advice of a salesman whose job it is to promote one company's products.

However, the UTA argues that polarisation is a fiction. Yesterday, the UTA released a Gallup survey showing that 35 per cent of all salesmen failed to disclose the nature of their relationship to the product provider when they sold a savings plan to the customer. And only a third of those who did disclose their status provided the customer with a written statement.

Recent data from the SIB show that one quarter to one third of all investment products are cancelled within the first two years, *suggesting that far too many peo*ple are being sold unsuitable products. The UTA argues that it is the commission system itself which encourages that.

The insurers flatly deny these arguments. But if the UTA is right, *there is little point in* arguing about whether one distribution system or another is better for the consumer. Implicit in the UTA's submission to the SIB is that something must be done about way insurance salesmen are remunerated.

Others join the UTA in arguing for de-polarisation. Halifax Building Society, currently a tied agent for *Sun Alliance*, is also a supporter.

Mr Michael Fearnsides, managing director of Halifax Financial Services, says that while the company is very happy with its current arrangement, it believes *it should have the option of sell*ing the unit trusts of other providers. Halifax has no plans to start making its own products, but it is an option that has probably occurred to other building societies.

Whatever the regulatory structure, the competitive pressures are likely to shift the advantage towards those who directly sell *the products to the public, partic*ularly the banks and building societies. The bitterness of the UTA row is an indication of the concern with which the big insurers view the challenge.

Mike Newmarch, chief executive of Prudential, which left the Unit Trust Association after the group's public attack on the sales tactics of life insurers.

Norwich Union cuts bonus by 9%

By John Authers in London

NORWICH UNION, the UK mutual insurance group, yesterday announced cuts of about 9 per cent in the payouts it makes to policyholders.

Precise cuts in bonuses vary depending on the type of life assurance contracts investors hold.

Norwich Union is the first big life company to announce its bonuses for 1992 and the move can be expected to set a trend for other life offices when they announce bonuses in January.

Mr Hugh Scurfield, general manager and actuary for group, said that the decision had been made to take account of the fall in *equities during 1990, and of* Norwich Union's forecasts for the next decade.

The group predicts that inflation will remain at an average of about 3.5 per cent over the next decade and that the yields on bonds and equities will move closer together. Equities are still expected to produce a slightly higher yield than bonds – 8.0 per cent rather than 6.0 per cent. In the 1980s equities yielded 15.0 per cent and bonds only 6.9 per cent.

Fund managers have already acted on *these* projections. The group's main with-profits fund now has a 16 per cent holding of bonds having held none at all at the beginning of this year.

Mr Philip Scott, the group's senior investment manager, said that these lower returns had to be reflected in bonuses paid to policyholders. The group was *out-performing* its rivals, but he said: "We out-perform in an industry where overall returns need to come down because of the lower inflationary environment. That, we believe, is the fundamental issue for the investment industry."

The total sum received on an endowment policy maturing after ten years of paying regular monthly premiums of £30 ($54) would drop from £8,241 last year to £7,532. This is a cut of 9 per cent.

Payouts on *10-year policies* have not been as low since 1984, when the equivalent policy would have paid £7,136.

Endowments lasting 25 years – mostly used to support mortgages – would continue to benefit from the strong gains in the late 1970s, but payouts would fall 5 per cent. Using the same assumptions as before, the final payout would drop from £63,237 at the beginning of this year, to £60,073 at the beginning of next year.

Lex, Page 14

Allianz to buy remaining stake in east German unit

By David Waller in Frankfurt

ALLIANZ, Europe's largest insurance company, has agreed to buy the 49 per cent of Deutsche Versicherungs which it does not own from the Deutsche Treuhandanstalt – the east German privatisation agency – for DM440m ($278.4m).

The price to be paid for the stake in what used to be the east German state insurance monopoly is significantly higher than the DM270.7m Allianz paid for its original 51 per cent stake in June last year – and a lot higher than Allianz had said it wanted to pay in view of the east German operation's heavy losses.

Losses at the subsidiary will mean that this year the Allianz group will report its first deficit on its mainstream underwriting activities. The business, which generates premium income of around DM1.8bn a year, is not expected to break even until 1995-96, having made cumulative losses in excess of DM1bn by then.

It is estimated that Deutsche Versicherungs loses DM30 for every DM100 it earns in premium income.

Allianz did not comment on the price yesterday, but analysts said it had been obliged to pay a "political premium," given that the sale of the monopoly to Allianz was highly controversial in the first place and the prices obtained by the Treuhand are widely scrutinised in Germany.

Allianz has long made clear it wanted to buy the remaining stake.

Analysts added that Allianz had little room for expansion in western Germany and so had been willing to pay a high price in the hope of long-term growth; premium income in the east is expected to rise to DM3bn-DM3.5bn by 1995-96.

The Treuhand said yesterday that as part of the deal 25 per cent of the shares in Deutsche Versicherungs will be listed in future. The deal is subject to the approval of the German Finance Ministry.

Macy losses stretch to $155.4m in quarter

By Karen Zagor in New York

R.H. MACY, the New York-based department store chain, yesterday said it had extended its first-quarter net loss to $155.4m from a deficit of $56.5m a year ago.

Excluding income tax benefit and extraordinary gains in the 1990 first quarter, Macy suffered a $99.2m loss last year. Retail sales in the latest quarter rose to $1.6bn from $1.55bn. Selling, general and administrative expenses rose to $532.5m from $430.2m.

The weak results come at a time when Macy's bankers are nervous about the prospect of slow and heavily-discounted Christmas sales.

Earlier this month, Macy's bankers, led by Manufacturers Hanover and Bankers Trust, agreed to amend covenants of a $587.7m revolving credit facility.

Macy's problems stem partly from the depressed economy and from the debt burden following a management-led $3.6bn buy-out in 1986.

Macy's said: "With one week to go until Christmas, our earlier expectations that this would not be a particularly robust holiday season is proving out. Nonetheless, we believe we continue to gain market share, and the recent amendments to our bank agreement provide us with the necessary flexibility to keep growing our business."

La Cinq losses to deepen amid staff cuts

By Alice Rawsthorn in Paris

LA CINQ, the ailing French television station, yesterday announced it was shedding 292 staff, just over half its workforce, in an emergency cost-cutting package.

The station, which is run by Hachette, the heavily-indebted French media group, also disclosed that it was on course for operating losses of FFr1.12bn ($207m) this year, higher than the worst expectations.

La Cinq's future has for some months been clouded by uncertainty. The station, despite being best known in France for its late night pornography, has been trying to establish itself as a mainstream channel in direct competition with TF1, the most powerful French channel, since its launch in 1986 as part of the French government's television de-regulation drive.

Hachette, which has run La Cinq since buying a significant stake last year, announced last week that it was searching for new investors to provide additional capital.

La Cinq has already gone through a number of changes of ownership in its short life. Originally it was run by Mr Silvio Berlusconi, the Italian media magnate who still has 25 per cent of the equity, and Mr Jerome Seydoux, head of Chargeurs, the French industrial group and a close associate of Mr François Mitterrand, the socialist president.

Mr Seydoux was dislodged in the following year when Mr Jacques Chirac's conservative government brought in Mr Robert Hersant, the right wing newspaper proprietor. Mr Seydoux severed his connection with La Cinq when Hachette stepped in last year. Hachette then appointed Mr Yves Sabouret, its vice-president, as director-general.

Mr Sabouret cut costs at the station but failed to get to grips with its financial problems. La Cinq's share of the French television audience is believed to have fallen to 11 per cent in the first half of this year from 12.5 per cent in 1990, at a time when TF1, its arch-rival, raised its share to 44 per cent. This has created a vicious cycle whereby it is even more difficult for La Cinq to attract advertising revenue.

● Havas, another leading French media group, yesterday announced it had abandoned plans for a merger with Canal Plus, the successful pay TV station, because of the unstable state of the financial markets.

Mr Pierre Dauzier, president of Havas, which owns 25 per cent of Canal Plus, said on French radio that the two companies had decided to "close the dossier for the moment", but the idea of a merger was still "interesting" as it offered an opportunity to create an international media group.

● Group net profit at Canal Plus is likely to rise by about 10 per cent 1992, which is what it had forecast, said Mr André Rousselet, chairman, Reuters reports. He said Canal Plus was on track to meet its 1991 profit forecast of FFr1.05bn.

Lasmo raises Ultramar stake

By Deborah Hargreaves in London

LASMO, the UK oil exploration company which has launched a £1.2bn ($2.18bn) bid for fellow oil and gas group Ultramar, could have tipped the balance to a closely run offer yesterday when it bought 3.55 per cent of Ultramar's shares.

The company bought the shares for £3 each yesterday lunchtime from several institutions which had offered them, leading analysts to suggest Lasmo is quietly confident of succeeding in its bid.

However, Ultramar suggested the share purchase was the result of a failed raid by the exploration company which is allowed to buy up to 10 per cent of the shares before the offer closes today.

The results of the takeover offer, which will be revealed later today, are, in any case, likely to be extremely close after a battle that has seen little credit won by either side.

Lasmo has offered a one-for-one share exchange plus 40p which, at current prices, values Ultramar at 294p, or 23 Lasmo shares for 20 Ultramar shares.

Ultramar has mounted a spirited defence which included the resignation of three senior directors and the announcement of the sale of some £350m of its assets in a bid to reduce gearing below 50 per cent.

Lasmo has stressed the confused strategy on the part of Ultramar. But its own plans for unlocking shareholder value by selling off Ultramar's North American oil refineries has been called into question as some shareholders have raised doubts about the market for these assets.

Lasmo said it received interest from about "eight to 10" possible purchasers, but declined to specify any further.

"If the bid fails, it will not be seen as a vote of confidence in Ultramar's record, or its vague promises for the future, but as unwillingness among shareholders to accept a largely paper offer," said an analyst at County NatWest.

Both companies' share prices have drifted downwards since the bid was announced, in line with a $4 decline in the price of oil.

In addition, the lack of a firm cash offer to counter Lasmo's paper bid has undermined confidence in asset valuations for the oil exploration and production sector as a whole.

Dasa expects return to profit

DEUTSCHE Aerospace (Dasa), the aerospace unit of German industrial group Daimler Benz, said it expected double-digit group earnings this year after a loss of DM135m ($85m) in 1990, Reuter reports.

Mr Juergen Schrempp, management board chairman, said the swing into profit was mainly due to a large profit from its Deutsche Airbus unit. Airbus lost over DM100m last year because of currency losses. He said Dasa also expected the parent company to remain profitable this year.

SCA to shed 1,200 further jobs

By Robert Taylor in Stockholm

SVENSKA Cellulosa Aktiebolaget (SCA), one of Sweden's leading forestry companies, is shedding an extra 1,200 jobs from its 33,000-strong payroll and cutting its profits forecast for this year. It is now forecasting a drop of 40 per cent from the SKr2.1bn (US$364m) achieved in 1990.

It was only in September that the company announced it intended to shed 3,500 jobs - nearly 12 per cent of its workforce – by 1993.

The company blamed its troubles on the impact of the global price war in newsprint and other printing paper which has already reduced prices by 5 per cent to 10 per cent.

SCA intends to allocate the SKr500m achieved in earlier savings to its 1991 accounts to cover the expected costs of its expanded rationalisation programme.

The group's moves follow similar measures taken by its big Swedish rivals Stora and MoDo at the end of last week.

German groups in tubing pact

By Christopher Parkes

HOESCH and Mannesmann, two of Germany's leading steel and engineering concerns, are to join forces in the manufacture and marketing of precision tubes and pipelines.

They will each take a 50 per cent stake in a new company which is to take over the precision tube activities of both groups. Mannesmann specialises in seamless products and Hoesch in welded precision tube.

A joint statement issued yesterday said the decision to link up had been taken against the background of sharpening international competition and the development of the single European market.

The new company, based in Hamm, near Dortmund, will employ 4,500. It will also absorb Hoesch's production facilities and workforce in Hamm, currently employed in making welded pipeline sections.

Hoesch's pipeline output will be marketed jointly with similar products made by Mannesmann.

The deal, which has yet to be approved by the cartel authorities, marks another stage in the tentative process of knitting together Germany's heavy industrial core, which is feeling the pressure from larger overseas competitors and poor market conditions.

In their 1990 annual reports, Hoesch and Mannesmann complained of low demand for pipelines and other tube products from east European and Middle Eastern oil producing countries. Mannesmann's tube sales fell 12 per cent in the year.

Overall group turnover in the first six months of the current year, affected by turmoil in eastern and central Europe and recession elsewhere, was down 6 per cent.

First-half profits at Hoesch, which is resisting a merger bid from Krupp, tumbled from DM412m to DM140m.

Kolbenschmidt to cut payout as profits slide

KOLBENSCHMIDT, the quoted motor components subsidiary of Metallgesellschaft, the German engineering group, will have to reduce its dividend after a slide in profits for the financial year to September 30. It has already cut its German workforce, with further reductions on the way, writes Andrew Fisher in Frankfurt.

Group pre-tax profits were down to DM200,000 ($125,000) from DM72.5m, mainly due to losses in the US and restructuring costs of acquisitions there.

The company also made losses in France, Spain, and Italy. In Germany, it benefited from the strong demand for cars following unification, but said domestic profits had been harmed by high wage settlements at a time of stagnating prices.

Kolbenschmidt did not say by how much the dividend would be cut from the previous DM8 a share. Parent company profits, which do not include foreign business, were down to DM33.5m from DM56m before tax. Group turnover was flat at DM1.4bn. Without acquisitions, however, there was an 8 per cent drop.

The parent group has posted a 35 per cent drop in pre-tax profits to DM316m due to lower metal prices, the worsening of the car market and the weaker world economy.

Rémy Cointreau merger approved

By Alice Rawsthorn

PAVIS and Rémy & Associés, the French drinks groups, have secured shareholders' approval for their proposed merger to create Rémy Cointreau.

Rémy Cointreau, which will control a wide range of French drinks brands including the Krug and Piper Heidsieck champagnes as well as Rémy Martin cognac and Cointreau liqueur, will be one of the largest players in the French drinks industry. Its formation follows a number of other mergers and alliances within the international drinks trade.

After the merger, 31 per cent of Rémy Cointreau's shares will be in public issue. Orpar, a company controlled by the Hériard Dubreuil family, will be the largest shareholder with 45.5 per cent of the equity – Mr André Hériard Dubreuil will be president of the new group – with Rémy Martin holding 20.8 per cent.

The new company will be listed on the Paris bourse on December 24 and on the Frankfurt Stock Exchange on December 27.

Rémy Cointreau estimates that its combined turnover for the financial year to March 31 would have been FFr6.5bn ($1.2m), with group profits of FFr214m. It has indicated that its dividend should show an increase this year over the dividend paid by Rémy & Associés last year.

The group said yesterday that the merger would not mark a change of strategy. It does, however, plan to consolidate its champagne businesses, including Krug, within Piper Heidsieck, which is quoted on the Paris Stock Exchange.

INTL. COMPANIES AND CAPITAL MARKETS

A&P profits tumble to $3.92m

By Nikki Tait in New York

PROFITS at Great Atlantic & Pacific Tea Company, better known as the A&P supermarket chain, slumped to just $3.92m after tax in the three months to end-November.

This compares with the $32m which A&P, the fourth largest supermarket group in the US encompassing 1,251 outlets, made in the same period a year ago. The company, 53 per cent-owned by Germany's Tengelmann Group, and which still holds a stake in Britain's Isosceles group, has now registered net profits of only $54.6m in the first three quarters of its financial year, against $119.4m last time.

The third-quarter figures were substantially worse than analysts had predicted – one circular, issued at the end of October, suggested net profits of around $14m – and trading in A&P's shares was delayed briefly by an order imbalance. By mid-morning in New York, the price had fallen by another $1⅝ to $26⅞. This is less than half the 52-week high of $57⅞.

Mr Jim Wood, A&P chairman, blamed the results on A&P's "unique geography" and "the costs associated with absorbing major acquisitions during an extended economic downturn". About 60 per cent of A&P's stores are in New England, the mid-Atlantic states (including New York), the mid-West or Canada. Some of these areas have been particularly badly affected by the US recession.

However, A&P has attracted criticism recently for the timing of its latest acquisitions. It spent C$270m (US$239m) buying 70 Miracle Food Mart stores in Ontario in October 1990, only to run into adverse tax and trading law changes as well as the recession.

A&P said yesterday that it had been increasing promotional spending in an effort to lift sales and cling on to market share leadership in areas such Ontario, metropolitan New York, and Michigan. Mr Wood claimed that these objectives "have been accomplished." Analysts in New York said yesterday that they believed A&P had seen "sharply deteriorating" same-store sales – one pundit talked of a 6 per cent decline in the latest quarter – and decided to fight back, at cost to its bottom line.

Sales during the three months totalled $2.61bn, unchanged from a year ago. Operating profits, however, fell from $74.3m to $34.8m, while interest charges eased slightly, from $19.8m to $18.2m.

Argentina completes first privatisation

By John Barham in Buenos Aires

ARGENTINA has successfully completed its first privatisation. The government has raised $848.7m with the flotation of its 30 per cent stake in Telefonica de Argentina, one of the country's two telephone networks.

The sale now helps clear the way for two big privatisation issues expected to reach the market in 1992.

In March, the government plans to sell its remaining 30 per cent share in Telecom Argentina, the country's second telephone company, to be followed by YPF, the state-owned oil company currently being restructured.

The shares were heavily oversubscribed due to strong local demand in what was Argentina's largest-ever share issue.

The bidding system used to award the shares meant that $1.3bn worth of bids, or 60 per cent of the total, were rejected because they failed to attain the 24 cents-per-share price established in the auction.

International demand was weaker than expected because overseas investors felt prices were too high.

But the flotation was marred by poor organisation, bickering among the underwriters, and by government indecision and inexperience.

Some foreign bankers complained that chaos in Buenos Aires and poor sales presentations scared away potential investors. Officials say they will avoid repeating the mistakes in future flotations.

However, Mr Roberto Werner of Banco Roberts, a Buenos Aires bank, said: "There will be plenty of demand for shares in privatised companies. Investors are encouraged by the strong growth possibilities of telecommunications in Argentina and by improving economic conditions."

Telefonica officials say they expect earnings to rise by an average of 15 per cent a year for the next five years.

Bankers forecast Telefonica's 1992 profit at between $200m and $240m, compared with $117m for the 11 months to September 30.

TSE upsets Mitsubishi Oil plan

By Robert Thomson in Tokyo

A PLAN by Mitsubishi Oil, the Japanese oil refiner, to bring a struggling oil refiner, Fuji Kosan, into the Mitsubishi family of companies was clouded yesterday by a Tokyo Stock Exchange (TSE) investigation into the trading of Fuji Kosan shares.

Mitsubishi Oil announced yesterday that it would take a stake of about 8 per cent in Fuji Kosan through the acquisition of new shares worth Y3bn, and that the two companies will jointly establish a new company, New Kainan Refinery Corporation, to manage the refining assets of a Fuji affiliate.

However, the Tokyo exchange said that it would investigate trading of Fuji Kosan's shares over the past week for evidence of unfair trading. The trading of Fuji Kosan shares jumped sharply after December 10, with volume 15 times higher than in previous weeks, while the ailing company's share price rose from Y450 on December 9 to Y610 at Monday's close.

Fuji Kosan, which reported a pre-tax loss of Y765m ($5.9m) last year and has forecast a loss of Y1bn this year, is listed on the first section of the Tokyo exchange and deals mainly in lubricant ingredients, fuel oil and asphalt.

The company has been crippled by a debt of Y100bn and it is understood that about Y35bn will be written off by Japanese banks as part of the rehabilitation plan.

The plan also includes the appointment of a Mitsubishi executive as president of Fuji Kosan.

Ties between the two companies strengthened in 1989, when Mitsubishi Oil consigned oil refining work to Fuji Kosan, and the two have since discussed the purchase of the troubled refiner's assets with the aim of reducing its debt and bringing it back to profitability.

Mitsubishi Oil said that the agreement with Fuji Kosan and the establishment of the joint venture company will "more efficient use" of its facilities, particularly a refinery in the west of Japan. The company said that further joint ventures will be considered with Fuji Kosan, which has been in difficulties since the late 1970s.

The deal highlights the close relationship between Japanese companies and their lead banks, which are reluctant to allow an important client to fail. It also reflects the ability of powerful companies, such as Mitsubishi Oil, to expand greatly their influence by taking a relatively small stake in a targeted company.

Federal Express falls to $26.5m in second term

By Nikki Tait

FEDERAL Express, the troubled US express delivery service, still stung by losses from its international operations, has reported a fall in second-quarter profits to $26.5m after tax. This compares with a profit of $37.5m in the same September to November period last year.

Federal Express said that revenues were down by around 2 per cent at $1.94bn. However, it pointed out that last year's figures included revenues from its non-express package business in the UK – which was pruned in the third quarter of 1990-1991 – and "significantly more" charter business as a result of the Desert Shield operation in the Gulf.

At the operating level, profits slipped from $125.8m to $98.9m, while earnings per share were 31 per cent lower at 49 cents.

Part of Federal Express's problems stem from its international business. This made an operating loss of $84.5m in the second quarter, on revenues of $651.6m, compared with a deficit of $54.7m on sales of $719.5m a year ago. This autumn, the company announced an agreement in principle to sell a large part of its UK operations back to Littlewoods, the privately-owned UK retailer.

However, Mr Fred Smith, chief executive, also blamed the "continuing impact of a stagnant economy". He said that the lengthy US recession had made customers more price-conscious in all its markets, putting pressure on profit margins. Federal Express added, however, that international priority and its international express freight poundages were both up by more than 30 per cent.

The company also announced that it has received a $56.4m "notice of deficiency" from the US Internal Revenue Service, as a result of an IRS audit of certain tax returns made between 1983 and 1987. Federal Express claims that the calculation is incorrect, and plans to contest the matter.

Its shares fell $⅜ to $33 on the news.

Omron buys German stake

By Stefan Wagstyl in Tokyo

OMRON, the Japanese maker of control components for machine tools and other industrial plant, yesterday announced the acquisition of 95 per cent of Schoenbuch Electronics Hanesch, a privately-owned German maker of sensors and switches.

The deal highlights the continuing interest of Japanese companies in establishing and expanding their presence in Europe in advance of the changes within the European Community in 1992. Omron's European operations are based in the Netherlands, where the company first set up an office in 1974.

Omron said it was buying Schoenbuch to strengthen its European sales organisation, particularly in Germany. The purchase price was not disclosed.

Schoenbuch is a medium-sized maker of sensors founded in 1975 and employing 85 people.

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 6:10 pm on December 17

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABN 9 1/8 94	200	105¼	105¾	-⅛	6.89
ALBERTA PROVINCE 9 3/8 95	600	109¾	109⅞		6.54
AUSTRIA 8 1/2 00	400	105⅝	106	-¼	7.54
BANK OF TOKYO 8 3/8 96	100	104⅜	105⅛		7.07
BELGIUM 9 5/8 98	250	111⅜	111¾	-⅛	7.36
BFCE 7 3/4 97	150	103⅝	104⅛	+⅛	6.86
BNP 8 5/8 94	300	106⅛	106⅜		5.96
BRITISH GAS 8 3/8 99	350	105⅛	105⅝		7.47
CANADA 9 96	1000	108⅞	109⅛		6.50
CARCO 9 1/4 96	650	103⅛	103⅞	-1¼	8.39
CCCE 9 1/4 95	300	108⅜	109⅛		6.14
COUNCIL EUROPE 8 96	100	105⅛	105⅝		6.66
CREDIT FONCIER 9 1/2 99	300	111⅛	111⅝	-⅛	7.44
DENMARK 8 1/4 94	150	105⅝	106⅛	+⅛	5.89
DENMARK 9 1/4 95	1571	108⅝	109	+⅛	6.19
ECSC 8 1/4 96	193	106⅛	106⅝	+⅛	6.72
EEC 8 1/4 96	100	105	105⅝	-⅛	6.90
EIB 7 3/4 96	250	104⅛	104⅝	+⅛	6.62
EIB 9 1/4 97	1000	110⅜	111	+⅛	6.96
ELEC DE FRANCE 9 98	200	108⅜	109⅛	+⅛	7.20
EURO CRED CARD TST 9 94	325	104⅜	104⅞	+½	7.22
EUROFIMA 9 1/4 96	100	108½	109		6.85
EXPORT DEV CORP 9 1/2 98	150	111⅛	111⅝		7.29
FINLAND 7 7/8 97	200	103⅜	104	+⅛	7.09
FINNISH EXPORT 9 3/8 95	200	109⅛	109⅝	+⅛	6.57
FORD CAPITAL 9 3/4 97	250	106	106⅜	+⅛	8.32
GEN ELEC CAPITAL 9 3/8 96	300	108⅞	109⅛	+⅛	6.98
GMAC 9 1/8 96	200	104⅜	104⅞		7.85
GUINNESS FINANCE 8 94	200	104⅜	104⅞	+⅛	6.08
IBM INTL FIN 7 3/4 94	200	104	104½		5.85
IND BK JAPAN FIN 7 7/8 97	200	102⅛	102⅞	-⅛	7.34
INTER AMER DEV 7 5/8 96	200	102⅞	103⅜	-½	6.88
ITALY 8 1/2 94	1500	106⅜	106½	-⅛	5.99
JAPAN DEV BK 8 94	150	104½	105	-⅛	5.93
KANSAI ELEC PWR 10 96	350	110⅝	111⅛	-⅛	7.02
LTCB FIN 8 97	200	101½	102	-⅛	7.63
NEW ZEALAND 9 94	850	107	107½		6.09
NIPPON CRED BK 10 3/8 95	150	110⅛	110⅞	+⅛	6.99
NIPPON TEL & TEL 9 3/8 95	200	108	108½	-½	6.52
ONTARIO 8 1/2 01	600	103⅝	104		7.92
ONTARIO HYDRO 11 5/8 94	200	110⅝	111⅛	-⅛	6.22
OSTER KONTROLLBANK 8 1/2 01	200	104⅞	105⅛		7.73
PETRO-CANADA 7 1/4 96	200	101⅜	101⅞	-⅛	6.86
QUEBEC HYDRO 9 3/4 98	150	109⅝	110	-⅛	7.85
QUEBEC PROV 9 98	200	106⅞	107⅛	+⅛	7.57
SAINSBURY 9 1/8 96	150	107½	108⅛	-⅛	7.21
SAS 10 99	200	107⅝	108⅜	+⅛	8.53
SEAB 9 1/2 95	500	109⅛	109½	+⅛	6.44
SNCF 9 1/2 98	150	110⅜	111⅛		7.37
STATE BK NSW 8 1/2 96	200	105	105½		7.15
SWEDISH EXPORT 8 3/8 96	700	106⅛	106½		9.00
TOKYO ELEC POWER 8 3/4 96	300	107⅛	107⅝	-⅛	6.90
TOKYO METROPOLIS 8 1/4 96	200	105⅝	106⅛	-⅛	6.85
WORLD BANK 8 3/8 99	1500	106⅝	106⅞		7.38
WORLD BANK 8 3/4 97	1500	109⅛	109⅜	-⅛	6.75
XEROX CORPN 8 3/8 96	100	103⅝	104⅛	+⅛	7.49
DEUTSCHE MARK STRAIGHTS					
BAPROVEN 11 1/8 95	200	100⅛	100⅛	-⅛	11.05
BK ECON USSR 7 96	750	60⅛	60⅛	-5	22.35
BULGARIAN TRADE BK 8 1/2 96	200	85	85	+⅛	13.00
CZECH OBCHODNI BANKA 10 95	350	94⅜	94⅞	-1¼	11.95
DEUTSCHE FINANCE 7 1/2 95	1000	96⅞	96⅞		8.68
EIB 5 3/4 98	400	87½	87⅞		8.38
EIB 6 7/8 95	300	96⅛	96⅛		8.02
EUROFIMA 6 1/4 98	400	89⅛	89⅛		8.46
FIRST INTERSTATE 5 3/4 96	100	85⅛	85⅜	-⅛	10.01
IND BK JAPAN FIN 5 5/8 96	200	89⅛	89⅜	+⅛	8.68
IND DEV BK INDIA 6 3/8 94	200	88	88	+⅛	11.29
LUFTHANSA INT FIN 5 7/8 98	500	86⅜	86⅜		8.75
NACIONAL FINANCIERA 11 95	150	101	101	-⅛	10.60
NAT BK HUNGARY 8 96	200	92	92	+1¼	10.15
QUEBEC HYDRO 6 3/4 99	300	89⅜	89⅝		8.70
SWEDEN 6 1/8 98	300	89½	89⅞	+⅛	8.37
WORLD BANK 0 15	2000	18⅞	18⅞	+⅛	7.19
WORLD BANK 5 3/4 96	300	91⅛	91⅛	+⅛	8.30
WORLD BANK 7 1/8 95	500	96⅜	96⅜		8.36
SWISS FRANC STRAIGHTS					
ASIAN DEV BANK 6 10	100	86⅛	87⅛	+⅛	7.31
AUSTRIA 4 5/8 98	100	88	88⅛	+⅛	7.09
CHUBU ELEC POWER 6 3/4 01	300	98⅛	99½		6.93
COUNCIL EUROPE 4 3/4 98	250	89⅛	89½	+⅛	6.95
EEC 5 1/2 00	100	90	91		7.04
EIB 6 1/2 98	600	98⅜	98⅞	+⅛	6.73
ELEC DE FRANCE 7 1/4 06	100	102½	103		7.02
FINLAND 5 3/8 95	150	94⅛	94⅞		7.12
GENERAL MOTORS 7 1/2 95	100	98⅛	99½	+⅛	8.10
JAPAN DEV BK 5 1/2 94	100	97⅛	97⅜	+⅛	6.91
KOBE 6 3/8 01	240	96⅛	96⅛		6.91
NEW ZEALAND 4 7/8 99	200	86½	87	+⅛	7.37
QUEBEC HYDRO 5 08	100	73	73½	-⅛	8.08
WORLD BANK 5 03	150	83½	84	+½	7.13
WORLD BANK 7 01	600	101½	101⅞		6.77
YEN STRAIGHTS					
AUSTRIA 4 3/4 94	30000	98⅛	98⅝	+⅛	5.59
CREDIT FONCIER 5 1/4 94	20000	98⅛	98⅝	+⅛	5.90
DENMARK 7 95	40000	103⅜	104	+⅛	5.68
EIB 4 5/8 94	40000	97⅞	98⅛		5.59
ELEC DE FRANCE 5 5/8 96	20000	99	99½		5.86
FINLAND 6 3/4 96	50000	102½	102⅞	+⅛	6.06
INTER AMER DEV 7 1/4 00	30000	108½	108⅞		5.93
KANSAI ELEC PWR 4 5/8 94	60000	97⅛	97½	+⅛	5.89
NIPPON TEL & TEL 5 7/8 96	50000	100⅛	100⅝		5.84
NORWAY 5 1/8 95	50000	98⅜	98⅝	+⅛	5.67
SNCF 6 3/4 00	30000	105⅜	105⅝		5.90
SWEDEN 5 5/8 95	20000	98⅞	99⅜		5.96
WORLD BANK 6 3/4 00	50000	105⅞	106⅛		5.83

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
BAYERISCHE VEREINS INT 7 94 LFr	600	94	95		9.69
COPENHAGEN TEL 8 5/8 96 LFr	600	98	98⅜		9.23
WORLD BANK 8 96 LFr	1000	96⅛	97½		9.10
ABN AMRO HOLDING 9 1/4 01 Fl	750	102	102⅛	+⅛	8.91
UNILEVER 9 00 Fl	500	102⅞	103⅛	+⅛	8.50
ALBERTA PROVINCE 10 5/8 96 C$	500	106⅛	106⅝	+⅛	8.75
BELL CANADA 10 5/8 99 C$	150	106⅛	106⅝	+⅛	9.44
BRITISH COLUMBIA 10 96 C$	500	104⅛	104½		8.78
ELEC DE FRANCE 9 3/4 99 C$	275	103⅞	104⅛		9.02
GEN ELEC CAPITAL 10 96 C$	300	104⅛	104⅝		8.82
KFW INT FIN 10 01 C$	400	103⅞	104⅜	-⅛	9.34
NIPPON TEL & TEL 10 1/4 94 C$	200	105½	106		9.22
ONTARIO HYDRO 10 7/8 99 C$	500	107½	107⅞		9.39
OSTER KONTROLLBANK 10 1/4 99 C$	150	105⅝	106⅛	+⅛	9.17
QUEBEC PROV 10 1/2 98 C$	200	105½	106		9.38
BELGIUM 9 1/8 96 Ecu	1250	100⅞	100⅞	+⅛	8.88
CREDIT LYONNAIS 9 96 Ecu	125	97⅞	99⅜		9.59
DENMARK 7 5/8 96 Ecu	250	91⅞	93⅜	-⅛	9.99
EEC 7 5/8 94 Ecu	200	96⅜	97⅛	+⅛	9.31
EIB 10 97 Ecu	1125	104⅞	105	+⅛	8.77
FERRO DEL STAT 10 1/8 98 Ecu	500	104⅛	104⅞	+⅛	9.09
ITALY 10 3/4 00 Ecu	1000	110⅝	110⅞	+⅛	8.88
UNITED KINGDOM 9 1/8 01 Ecu	2750	103	103⅛	+⅛	8.63
BP AMERICA 12 1/4 96 A$	100	109	109½		9.53
COMM BK AUSTRALIA 13 3/4 99 A$	100	117½	117⅞		10.34
EKSPORTFINANS 12 3/8 95 A$	75	110⅝	111⅛	+⅛	8.65
EUROFIMA 14 5/8 94 A$	75	112⅝	113⅛	+⅛	8.51
MCDONALDS CANADA 15 95 A$	100	115⅞	116⅜	+⅛	9.45
NAT AUSTRALIA BANK 14 3/4 94 A$	150	111⅛	111⅞	-⅛	8.83
STATE BK NSW 14 1/4 99 A$	100	117⅞	118⅛		10.72
UNILEVER AUSTRALIA 12 98 A$	150	109	109½	+⅛	9.98
VOLKSWAGEN INTL 15 94 A$	100	111⅞	112⅛	+⅛	9.13
ABBEY NATL TREAS 13 3/8 95 £	100	107⅛	107⅜	+⅛	10.54
ALLIANCE & LEICS 11 3/8 97 £	100	101⅛	102⅛		10.89
BRITISH GAS 12 3/4 95 £	300	106	106⅜	-⅛	10.39
DEUTSCHE BK FIN 11 94 £	225	101½	101⅞	-⅛	10.21
EIB 10 97 £	536.5	99⅞	100⅛		10.02
FINLAND 10 1/8 97 £	100	100⅛	100⅞	+⅛	10.01
INTER AMER DEV 11 3/8 95 £	75	103	103½	-⅛	10.25
ITALY 10 1/2 14 £	400	100	100½	-⅛	10.49
LAND SECS 9 1/2 07 £	200	86½	86⅞		11.38
NORWAY 10 1/2 94 £	200	101	101⅜		9.93
ONTARIO 11 1/8 01 £	100	103⅞	104⅛	-⅛	10.46
SEVERN TRENT 11 1/2 99 £	150	103	103½		10.87
SKANDINAVISKA ENSK 13 1/8 95 £	100	105⅜	106⅛	-⅛	11.00
TOKYO ELEC POWER 11 01 £	150	104⅛	104⅝		10.28
WORLD BANK 11 1/4 95 £	100	102⅞	103⅜		10.16
ABBEY NATIONAL 0 96 NZ$	100	63⅝	64⅝	-⅛	9.88
BNP 12 96 NZ$	50	109⅞	110½	+⅛	9.14
CEPME 10 95 FFr	2000	102	102⅜		9.27
ELF-AQUITAINE 9 99 FFr	600	99⅛	99⅝	+⅛	9.15
EURATOM 7 5/8 98 FFr	500	92⅝	93⅛	+⅛	9.21

FLOATING RATE NOTES	Issued	Bid	Offer	C.cpn
ALLIANCE & LEICS 0.08 94 £	300	99.50	99.61	10.6425
BANCO ROMA 0.03 01	200	91.50	92.50	6.4675
BELGIUM 1/16 97 DM	500	99.96	100.06	9.5000
BFCE -0.02 96	350	100.21	100.31	4.9175
BNP 05	300	95.50	96.38	5.5625
BRITANNIA 1/10 96 £	150	99.08	99.28	10.6625
CCCE 06 ECU	200	99.93	100.03	10.1563
CITIZENS FED 0.15 96	100	99.57	99.95	5.9625
CREDIT FONCIER -1/16 98	200	100.44	100.54	5.3438
DENMARK -1/8 96	1000	99.83	99.93	5.6875
DRESDNER FINANCE 1/32 98 DM	1000	99.97	100.06	9.5156
ELEC DE FRANCE 1/8 99	400	101.00	102.00	6.0625
FERRO DEL STAT 94	200	100.55	100.80	5.9375
HALIFAX 1/10 94 £	200	99.93	100.02	10.5375
IRELAND 98	300	99.49	99.59	4.4600
ITALY 00	500	100.47	100.57	6.3750
LEEDS PERMANENT 1/8 96 £	200	99.28	99.43	10.4375
LLOYDS BANK 1/10 PERP S.3	600	80.00	82.00	6.0375
MITSUI FIN ASIA 1/8 96	100	99.80	99.90	5.9375
MORGAN (JP) 1/4 97	250	99.00	99.63	5.2500
NAT WEST FIN 3/16 05	400	91.00	92.00	5.5000
RENFE 98	500	99.99	100.09	5.0000
SOCIETE GENERALE 96	300	99.59	99.69	5.6250
STATE BK VICTORIA 0.05 99	125	98.20	98.45	6.4875
UNITED KINGDOM -1/8 96	4000	99.97	100.00	5.2500
YORKSHIRE BS 1/10 94 £	165	99.58	99.68	10.5063

CONVERTIBLE BONDS	Issued	Conv. price	Bid	Offer	Prem.
BURTON GROUP 4 3/4 01 £	110	2.38	125½	127½	
CHUBB CAPITAL 6 98	250	86	103	104	+29.31
DAI-ICHI KANGYO 3 7/8 04	300	3251.8	92½	93½	+11.23
EASTMAN KODAK 6 3/8 01	900	50.67	101½	102½	+13.34
GOLD KALGOORLIE 7 1/2 00	65	1.0554	79½	80½	+38.77
HANSON 9 1/2 06 £	500	2.5875	94⅝	95⅛	+24.29
HAWLEY 6 02 PREF	400	19.1	74⅞	79	
HILLSDOWN 4 1/2 02 £	150	3.97	115	115⅞	
LAND SECS 6 3/4 02 £	84	6.72	82½	83½	+17.46
LASMO 7 3/4 05 £	90	5.64	74⅞	75⅞	+63.77
MITSUI BANK 2 5/8 03	200	2337½	89⅜	91½	+14.69
MOUNT ISA FIN 6 1/2 97	100	2.283	89⅝	90⅝	+25.70
OGDEN 6 02	85	39.077	78	79	+70.52
SMITH & NEPHEW 4 02 £	90	1.775	118⅜	119⅜	+59.18
SUMITOMO BANK 3 1/8 04	300	3606.9	72⅛	73⅛	+22.11
TEXAS INSTRUMENTS 2 3/4 02	300	82⅞	88½	89½	
THORN EMI 5 3/4 04 £	103	7.45	117	118	+17.16

* No information available - previous day's price
‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day = Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread = Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn = The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

INTERNATIONAL CAPITAL MARKETS

Treasuries rise on hopes of imminent interest rate cut

By Patrick Harverson in New York and Sara Webb in London

US TREASURY prices firmed at the short end of the market yesterday morning after news of a decline in housing starts buoyed already high hopes of an imminent interest rate cut.

By midday, the benchmark 30-year government bond was down 1/32 at 102¾, yielding 7.756 per cent. The two-year note, however, was up ⅛ at 100⅞, yielding 5.005 per cent.

The market opened firmer in anticipation that the Federal Reserve's Open Market Committee, which met yesterday, would sanction a cut in the discount rate from 4.5 per cent to 4 per cent, and perhaps a cut in the Fed funds rate from 4.5 per cent to 4.25 per cent. These hopes, added by news of a 2.1 per cent drop in November housing starts, were behind buying of short-dated securities.

Prices eased later, however, after the Fed initiated overnight matched sales in the Fed funds market, a clear sign that it was not easing. Although there is still plenty of time for the Fed to ease, its message was not warmly greeted by investors and dealers.

GOVERNMENT BONDS

■ GERMAN government bonds made strong gains yesterday, with the futures market reaching its highest level for the year. Traders said the market was boosted by the strong D-Mark, lower-than-expected producer prices figures and the announcement that there would not be a further bund issue this year.

The March Liffe bund futures contract, which opened at 86.77, broke through the important technical resistance level of 86.80 and traded up to 87.04 on a volume of 45,302 contracts.

The German Finance Ministry said that the German government's traditional year-end bond, known as the "Sylvester-anleihe", will be issued in January 1992 instead of at the end of 1991. The bund market was also supported by the release of lower-than-expected western German producer prices for November. Producer prices in former west Germany fell 0.1 per cent in November from October to stand 2.5 per cent above their level in November 1990.

■ UK government bonds slipped on the day as the weaker pound led to a fall in the price of short-dated issues.

Traders said that sterling weakness lessened the chances of a cut in interest rates taking place soon. Among short-dated gilts, the Treasury 10 per cent 1996 ended at 101¼, down ⅜ to yield 9.69 per cent. Although traders reported some buying interest in medium-dated and long-dated issues, the benchmark 11¾ per cent gilt due 2003/07 slipped from its opening of 114⅜ to 114⅛ to yield 9.54 per cent.

Gilts traders said the market would be focusing on the release tomorrow of unemployment figures for November and average earnings for October.

■ JAPANESE government bonds ended slightly lower on profit-taking, but traders said sentiment remained bullish on hopes of an easing in US interest rates.

The yield on the benchmark No. 129 opened at 5.595 per cent and closed at 5.615 per cent. Traders said short-term interest rates remained steady with the three-month Certificate of Deposit rate at 6.06 per cent and the unsecured call money rate at 6⅛ per cent.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		12.000	11/01	114.6247	-0.016	8.67	8.70	8.81
BELGIUM		9.000	06/01	99.9000	+0.250	9.00	9.12	9.03
CANADA *		8.500	04/02	100.1600	+0.100	8.47	8.49	8.42
DENMARK		9.000	11/00	101.1700	+0.250	8.80	8.97	8.86
FRANCE	BTAN	8.500	11/96	97.9337	+0.074	9.03	9.19	8.87
	OAT	8.500	01/01	104.8600	+0.470	8.88	8.95	8.73
GERMANY		8.25	08/01	100.5500	+0.320	8.16	8.26	8.21
ITALY		12.000	08/01	97.3700	+0.270	12.48	12.65	12.49
JAPAN	No 119	4.800	06/99	94.1517	+0.026	5.60	5.94	5.19
	No 129	6.400	03/00	104.3414	-0.089	5.63	5.62	5.86
NETHERLANDS		8.500	03/01	98.8700	+0.080	8.67	8.78	8.72
SPAIN		11.900	07/98	100.5000	+0.100	11.89	11.79	11.86
UK GILTS		10.000	11/96	101-04	-06/32	9.72	9.81	9.72
		10.000	08/01	102-18	+03/32	9.67	9.70	9.67
		9.000	10/08	97-02	+02/32	9.35	9.46	9.46
US TREASURY *		7.500	11/01	102-09	+04/32	7.17	7.16	7.37
		8.000	11/21	102-26	+02/32	7.75	7.78	7.87

London closing. *New York morning session. Yields: Local market standard. Prices: US, UK in 32nds., others in decimal. Technical Data/ATLAS Price Sources

JSDA, TSE to revise share auction system

THE Japan Securities Dealers Association (JSDA) and the Tokyo Stock Exchange plan to revise the auction system for companies offering shares to the public for the first time, Reuter reports from Tokyo.

The revisions are aimed at letting more investors buy newly-offered shares at the pre-listing auction, and making the auction more flexible. Under the revised rules, at least 50 per cent of a company's shares to be offered to the public would be sold at auction before its listing on the stock exchanges, against between 25 and 50 per cent now.

Currently, the reference price for a company's shares at auction is based on the share prices of other similar companies. After the auction, the remaining shares are sold to the public, based on an average of the auction price just before the shares are listed. Under the revised rules, no upper limit would be set and the lowest price would be set 15 per cent below the reference price.

Japan gives warning to leading banks

By Robert Thomson in Tokyo

JAPAN'S Fair Trade Commission (FTC) has instructed seven leading banks that they must not collaborate on the fixing of commission fees for handling corporate bond issues.

The anti-monopoly body, which has been under US pressure to assist in making the Japanese financial system more transparent, warned the seven banks that they should neither formally nor informally agree on a set schedule of trustee commissions among themselves.

FTC officials have been examining a lift in charges in the spring of 1989 and another earlier this year for evidence that there was collusion among banks. As a result, the commission has advised that the banks must not swap information about bond issues.

The commission said that the fixing of commissions was in contravention of anti-monopoly laws, and instructed that the banks review the conduct of joint meetings of their officials.

The seven banks are Dai-Ichi Kangyo, Mitsui Taiyo Kobe, Mitsubishi, Sumitomo, Fuji, Sanwa and the Industrial Bank of Japan. An official at the Federation of Bankers' Associations said member-banks would examine the FTC's instructions and review the flow of information among them.

Underwriters for GIO flotation named

THE New South Wales state government has announced the three underwriters for the A$1.75bn (US$1.35bn) flotation early next year of its Government Insurance Office, writes Mark Westfield in Sydney.

Mr Nick Greiner, NSW premier, said Bain and Co, owned by Deutsche Bank, County NatWest and Potter Warburg had been chosen.

The GIO flotation is expected to double the capitalisation of the insurance sector index.

Japanese exchanges tighten rules

By Emiko Terazono in Tokyo

JAPAN'S three leading stock exchanges announced yesterday they will tighten restrictions on stock index futures and options trading by increasing margin deposit requirements.

The decision is the latest attempt by Japanese authorities to curb the surge in stock futures and options trading. Japanese investors have turned to the derivative markets from the sluggish cash stock markets, and for the first 11 months of this year volume in the Nikkei stock futures market soared to Y499,400bn ($3,889bn), five times that of the cash stock market.

The increase in margin deposits for derivatives trading, the third this year, follows volatile stock movements during the past few weeks ahead of last Friday's futures expiration. Japanese authorities have become increasingly nervous over large volumes in futures and options trading "confusing" the cash stock market, which has been unable to recover from last year's plunge and the spate of stock scandals.

Some traders also point out that the tightening of rules also reflects domestic brokers' displeasure over the foreign securities houses' dominance in the derivatives markets. For the six months to September, the Tokyo operations of Salomon Brothers and Morgan Stanley posted increases in profits larger than Nikko and Yamaichi, the leading Japanese brokers, thanks to profitable futures and options trading.

Mr Minoru Nagaoka, president of the Tokyo Stock Exchange, yesterday blamed the price fluctuations in cash stock prices on arbitrage-related trading between futures and cash stocks. Mr Nagaoka said the volatile market was discouraging participation by individual investors in the market and stressed the need to review the current system of derivative markets, although he said they had no detailed plans.

The stock exchanges' decision is likely to prompt criticism from the foreign brokerage community, as most houses rely heavily on profits from derivatives trading. Mr Craig Chudler, equities analyst at UBS Phillips & Drew, said investors were turning to futures trading due to the low commissions. "Raising the cost of futures trading will not provide an incentive for investors to return to the cash markets," he added.

The Tokyo and Osaka stock exchanges (TSE and OSE) raised margin deposits for stock index futures from 25 per cent to 30 per cent, including a 13 per cent cash deposit, as of today. Margin deposits put up by brokers to the exchanges were increased to 25 per cent from 20 per cent, including 10 per cent in cash.

The TSE, OSE and Nagoya Stock Exchange also announced that margin deposits on options trading will be raised to 30 per cent from 25 per cent. Brokers will be required to deposit at least 25 per cent of the value of the options contract, instead of 20 per cent.

The TSE and OSE will also narrow the minimum allowable price movement range for stock-index futures during the last 10 minutes of daily trading. The OSE will reduce the minimum price movement for the Nikkei 225 futures from 30 points to 20 points, while the TSE will cut the range on Topix futures to two points from three. The TSE will also disclose arbitrage cash stock holdings against separate futures contracts and daily trading volume by arbitrageurs starting on December 20. The TSE releases arbitrage positions against the nearest futures contract and the names of active arbitrageurs once a week.

European Community invites bids for Ecu250m six-year deal

By Simon London

NEW issue activity in the international bond market remained light yesterday, although the European Community invited bids from leading firms for its anticipated Ecu250m six-year deal, suggesting that the deal could be launched today.

Another EC borrowing entity, the European Coal and Steel Community, yesterday increased for the second time its five-year D-Mark bond issue, which was launched earlier this month.

The deal, lead-managed by Dresdner Bank, was increased to DM700m from DM550m, buoyed by strong demand from Italian investors.

Coupon payments on bonds issued by supranational agencies of which Italy is a member are exempt from withholding tax.

Proposals for the removal of the tax concession were included in this year's Italian budget, although they may now be dropped.

For investors outside Italy the bonds are less attractive, with the paper priced to yield eight basis points less than German government bonds, although the lead manager reported that there was buying from German and Swiss retail investors.

The ECSC also raised DM98m 10-year funding from a private placement of bonds arranged by Dresdner Bank. The paper was priced to yield 8.17 per cent, the same as 10-year bunds.

INTERNATIONAL BONDS

● THE US arm of Reed International, the UK publishing company, has raised $125m of 12-year debt in the US market under rule 144A, writes Tracy Corrigan.

The rule, which was introduced by the Securities and Exchange Commission about two years ago, allows foreign companies to list tradeable securities in the US market without registering with the Securities and Exchange Commission, but so far this channel has been little used for debt offerings.

The market combines features of the public debt market and the private placement market, which is not actively traded.

The issue was re-offered to investors at a yield 120 basis points above 10-year Treasury securities, which represents, according to lead-manager Morgan Stanley, a saving of 10 to 15 basis points for the borrower compared with the traditional private placement market.

A public debt issue would have been about 10 to 15 basis points cheaper, but the borrower would have had to meet stringent SEC registration and disclosure requirements in order to tap the public market.

The 144A route also allowed the borrower to raise long-term funds without strict financial covenants.

According to figures which were compiled by Morgan Stanley, only $1.6bn of publicly-traded 144A fixed income offerings have been launched to date.

Sweden to scrap share ownership restrictions

MS ANNE WIBBLE, Swedish finance minister, said Sweden will scrap the system under which a majority of shares in Swedish companies are barred from foreign ownership by 1993, Reuter reports.

"The system with restricted shares will disappear. When this will happen exactly I can't say. But it will happen before the EC demands it," Ms Wibble said. Asked if this meant the system would be scrapped by 1993, Ms Wibble said "yes".

Sweden applied on July 1 to join the European Community, and hopes to become a member by 1995. European integration and its free capital movements is seen as incompatible with the system of restricted shares.

It is not clear if the free-trade accord between the EC and the European Free Trade Association, of which Sweden is a member, would require the scrapping of restricted shares, but Ms Wibble said there was no reason to wait. The EC-Efta pact is due to take effect in 1993.

Swedish legal changes to take effect next month will allow for Swedish companies to convert restricted shares to free shares without government permission.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

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	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tue Dec 17 1991 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1991 to date	Mon Dec 16 Index No.	Fri Dec 13 Index No.	Thu Dec 12 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (180)	732.77	-1.5	9.24	6.57	13.84	34.30	743.60	749.60	743.84	721.17
2	Building Materials (23)	864.28	-2.9	8.07	7.21	16.74	46.51	890.32	900.53	894.01	966.78
3	Contracting, Construction (29)	875.10	-3.3	8.56	8.47	17.13	51.42	905.17	918.23	916.91	1132.67
4	Electricals (10)	2345.31	-1.0	10.28	6.32	12.38	98.23	2370.18	2380.04	2365.15	1926.78
5	Electronics (26)	1676.06	-0.1	10.97	5.13	11.56	53.94	1678.23	1687.23	1648.63	1548.10
6	Engineering-Aerospace (8)	323.93	-0.7	16.68	8.02	7.30	18.52	326.38	331.38	333.33	400.22
7	Engineering-General (43)	458.04	+0.1	10.48	5.48	11.77	18.20	457.60	457.14	454.40	366.02
8	Metals and Metal Forming (9)	297.19	-2.5	2.20	11.84	-	25.83	304.89	308.53	304.06	403.16
9	Motors (12)	290.37	-0.7	8.91	8.29	14.89	17.56	292.50	292.91	284.84	294.06
10	*Other Industrial Materials (20)*	1466.21	-1.6	8.17	5.59	14.57	59.05	1489.83	1503.51	1501.72	1259.18
21	CONSUMER GROUP (189)	1551.40	+0.1	7.57	3.55	16.26	40.73	1549.75	1553.23	1546.96	1230.28
22	Brewers and Distillers (23)	1910.11	+0.1	8.87	3.71	13.64	49.14	1908.62	1912.81	1898.62	1601.81
25	Food Manufacturing (19)	1207.24	-0.6	9.78	4.20	12.56	37.32	1214.49	1215.42	1210.33	1041.36
26	Food Retailing (17)	2364.96	-0.6	9.80	3.51	13.26	65.37	2379.05	2381.59	2375.91	2297.05
27	Health and Household (24)	4187.08	+1.1	4.92	2.30	23.37	72.62	4141.37	4157.43	4137.14	2564.03
29	Hotels and Leisure (24)	1194.45	-1.0	8.54	5.67	14.49	45.61	1206.14	1214.24	1193.37	1217.94
30	Media (23)	1334.60	+0.5	7.08	4.02	17.76	48.36	1328.31	1325.23	1382.63	0.00
31	*Packaging, Paper & Printing (17)*	723.57	-0.6	7.46	4.59	16.25	24.43	728.16	726.98	720.70	519.72
34	Stores (32)	988.86	-0.3	7.64	3.76	17.22	26.77	991.66	993.59	977.67	777.68
35	Textiles (10)	588.40	....	7.87	5.28	16.20	22.28	588.12	591.36	595.49	404.00
40	OTHER GROUPS (112)	1171.67	-0.6	10.30	5.74	12.25	40.33	1178.70	1184.52	1171.39	1018.57
41	Business Services (13)	1330.43	-1.2	7.59	5.00	16.74	46.93	1346.19	1387.98	1399.61	0.00
42	Chemicals (21)	1368.61	+0.1	7.39	5.36	16.72	54.35	1367.06	1368.78	1351.39	1075.21
43	Conglomerates (11)	1289.03	+0.2	11.31	8.34	10.87	44.87	1286.39	1278.64	1261.74	1289.15
44	Transport (14)	2271.22	-0.2	5.65	4.98	23.31	79.12	2275.50	2273.57	2234.42	1909.66
45	Electricity (16)	1208.14	-0.6	14.92	6.23	8.71	27.53	1215.77	1226.97	1205.80	0.00
46	Telephone Networks(4)	1371.10	-0.8	11.45	4.57	11.41	30.42	1382.50	1389.95	1384.72	1174.13
47	Water(10)	2240.85	-1.6	19.06	7.10	5.78	151.44	2276.69	2297.91	2256.34	2187.12
48	Miscellaneous (23)	1709.37	-1.3	5.85	5.81	23.50	75.10	1731.20	1741.75	1714.58	1587.87
49	INDUSTRIAL GROUP (481)	1224.08	-0.4	8.73	4.76	14.33	39.66	1228.86	1233.91	1225.40	1041.14
51	Oil & Gas (19)	2211.34	+0.3	11.69	6.35	11.32	104.27	2204.09	2208.28	2168.97	2316.97
59	500 SHARE INDEX (500)	1310.30	-0.3	9.07	4.95	13.91	44.82	1314.29	1319.35	1308.56	1146.08
61	FINANCIAL GROUP (90)	703.82	-1.0	-	6.63	-	34.41	710.65	714.86	703.00	712.10
62	Banks (9)	830.03	-1.2	4.76	6.40	41.61	38.97	839.85	843.87	815.33	743.96
65	Insurance (Life) (6)	1398.95	-0.2	-	6.11	-	63.68	1401.12	1418.00	1388.45	1305.90
66	Insurance (Composite) (7)	489.75	-1.2	-	8.90	-	32.94	495.75	504.96	503.52	620.32
67	Insurance (Brokers) (10)	976.98	-1.1	8.36	6.85	15.74	49.46	987.56	989.65	988.61	990.99
68	Merchant Banks (7)	453.99	....	-	4.72	-	16.06	453.76	453.57	452.16	356.00
69	Property (35)	805.39	-1.4	6.13	5.85	24.03	33.34	816.67	814.60	822.85	978.48
70	Other Financial (16)	230.70	+0.2	11.51	7.57	10.93	13.03	230.25	229.80	229.31	255.21
71	Investment Trusts (69)	1139.59	-0.5	-	3.80	-	31.82	1145.60	1149.05	1140.99	1010.72
99	ALL-SHARE INDEX (659)	1165.56	-0.4	-	5.12	-	41.78	1170.11	1174.88	1164.10	1039.03

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Dec 16	Dec 13	Dec 12	Dec 11	Dec 10	Year ago
FT-SE 100 SHARE INDEX‡	2432.9	-7.9	2436.4	2426.3	2440.8	2451.6	2423.3	2380.2	2392.0	2161.8

FIXED INTEREST

	PRICE INDICES	Tue Dec 17	Day's change %	Mon Dec 16	Accrued Interest	xd adj. 1991 to date
	British Government					
1	Up to 5 years (27)	122.02	-0.06	122.10	1.98	11.70
2	5-15 years (27)	135.38	-0.15	135.58	1.91	13.36
3	Over 15 years (8)	144.35	-0.03	144.39	1.43	13.28
4	Irredeemables (6)	160.01	-0.10	160.16	1.67	13.68
5	All stocks (69)	133.51	-0.11	133.66	1.93	12.94
	Index-Linked					
6	*Up to 5 years (2)*	167.21	-0.03	167.26	0.78	3.16
7	Over 5 years (9)	147.87	-0.10	148.02	0.93	4.26
8	All stocks (11)	149.41	-0.09	149.55	0.91	4.18
9	Debs & Loans (62)	114.68	+0.01	114.68	1.86	10.75

	AVERAGE GROSS REDEMPTION YIELDS		Tue Dec 17	Mon Dec 16	Year ago (approx.)
	British Government				
1	Low	5 years	8.72	8.63	9.83
2	Coupons	15 years	9.34	9.33	10.16
3	(0%-7¾%)	20 years	9.35	9.33	10.17
4	Medium	5 years	9.69	9.64	11.02
5	Coupons	15 years	9.46	9.45	10.49
6	(8%-10¾%)	20 years	9.42	9.42	10.38
7	High	5 years	9.92	9.87	11.13
8	Coupons	15 years	9.52	9.51	10.66
9	(11%-)	20 years	9.45	9.44	10.53
10	Irredeemables	†	9.54	9.53	10.33
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	3.98	3.97	3.99
12	Inflation rate 5%	Over 5 yrs.	4.35	4.34	4.15
13	Inflation rate 10%	Up to 5 yrs.	3.29	3.28	2.60
14	Inflation rate 10%	Over 5 yrs.	4.16	4.15	3.95
15	Debs &	5 years	11.18	11.18	12.63
16	Loans	15 years	11.00	11.00	12.37
17		25 years	10.83	10.83	12.14

‡Opening Index 2436.4; 9 am 2427.0; 10 am 2431.5; 11 am 2429.2; Noon 2429.5; 1 pm 2434.7; 2 pm 2434.1; 2.30 pm 2434.9; 3 pm 2432.7; 4.10 pm 2430.6; (a) 8.30am (b) 11.34am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL. The FT-ACTUARIES SHARE INDICES SERVICE covers a range of electronic and paper-based products relating to these indices. These are available by subscription from FINSTAT, Ibex House, 42-47 Minories, London EC3N 1DY. Tel: 071-702 0991.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	0	65	17
Other Fixed Interest	2	4	13
Commercial, Industrial	171	342	980
Financial & Property	71	185	522
Oil & Gas	13	27	52
Plantations	1	1	8
Mines	11	59	82
Others	28	69	48
Totals	297	752	1,722

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Am'nt Paid up	Latest Renunc. Date	1991 High	1991 Low	Stock	Closing Price p	+or -	Net Div	Times Cov'd	Gross Yield	P/E Ratio
[illegible]											

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1991 High	1991 Low	Stock	Closing Price £	+or -
[illegible]							

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1991 High	1991 Low	Stock	Closing Price p	+or -
[illegible]							

[illegible]

TRADITIONAL OPTIONS

● First Dealings Dec. 16
● Last Dealings Jan. 3
● Last Declarations March 19
● For settlement March 30

3-month call rate indications are shown on this page.

Calls in Barratt Devs., Belcom, Brent Walker, Kunick and NSM. Puts in Birse, Brent Walker, Brown & Jackson and Ratners. Put and call in Polypipe.

LONDON TRADED OPTIONS

Option	CALLS	PUTS
[illegible]		

TRADITIONAL OPTION 3-month call rates

■ INDUSTRIALS p		Charter Cons.	42	Ladbroke	21	Sears	5
Allied-Lyons	60	Comm Union	40	Legal & Gen	33	SmKl Bchm A	60
Amstrad	4	Courtaulds	38	Lex Service	18	TI	58
Assoc (BSR)	8	Eurotunnel	8	Lloyds Bank	35	TSB	10
BAT Inds	63	FKI	6	Lonrho	10	Tesco	20
BOC	46	FNFC	5	Lucas Inds	11	Thorn EMI	60
BTR	33	Forte	21	Marks Spencer	23	Trust Houses	13
Barclays	29	GKN	24	Midland Bank	15	Unilever	80
Blue Circle	20	Gen Accident	40	NatWest Bank	25	Vickers	9
Boots	30	GEC	18	P & O Dfd	41	Wellcome	75
Bowater	55	Glaxo	65	Racal Elect	6	■ PROPERTY	
Brit Aerospace	30	Grand Met	50	RHM	21	Brit Land	14
British Steel	11	GRE	10	Rank Org	52	Land Sec	32
Brit Telecom	27	Hanson	18	Ratners	9	MEPC	24
Cadburys	38	ICI	95	Reed Intl	38	Mountleigh	3
■ OILS		Aviva Pet	2	BP	20	Burmah Castrol	35
Conroy Pet	4	Gaelic Res	2	Premier Cons	4	Shell	40
Tusker Res	4	Ultramar	20	■ MINES		RTZ	44

UK COMPANY NEWS

Berisford director resigns as losses decline to £20m

By Peggy Hollinger

MR MURRAY STUART, the man who as chief executive led Berisford International from the brink of liquidation, announced his resignation yesterday as the once heavily-indebted commodities and property group revealed a sharp decline in losses from £96.1m to £20.5m for the year to September 30.

The City voiced some disappointment at the loss of Mr Stuart, who would only reveal that he was "taking up another major appointment, and the shares eased 3p to 18p.

Mr Stuart, who joined in July 1990, had been closely linked with the successful disposal programme pursued by Berisford – more than 60 businesses and assets sold in the last 18 months – to pay off the £1.2bn debt in September 1990.

The group also yesterday announced the sale of 51 per cent of its cocoa trading activities in a management buy-out to Brencroft. The financing means that Berisford will receive £17m debt repayments through the new joint venture's banking facilities.

Announcing the results, Berisford said debt – including contingent liabilities – at the last year-end was £1.5m. However, this does not include the group's $115m (£63m) bank guarantees for Rayner Coffee International, the loss-making coffee trading business in which it holds 45 per cent. In light of the difficult trading conditions experienced by RCI, Berisford wrote down to nil the value of its investment in the coffee business, requiring a provision of £22.4m.

Mr John Sclater, chairman, said the biggest problem now facing the group would be the restructuring of RCI. "We still have a nasty problem to sort out and we have got to find a way to free ourselves from the coffee business." RCI incurred a loss of £27.2m in the year.

A sharp fall in interest charges from £74.2m to £19.6m helped cut losses. The pre-tax return also benefited from a lower exceptional revaluation of the UK portfolio – £12.5m compared with £85.2m.

Mr Barry O'Connor, director, said the group was not considering a sale of the UK property portfolio for several reasons, not least of which was that the group needed an on-going business to retain its quote.

Turnover fell from £1.95bn to £694.2m, reflecting the sale of businesses.

Mr O'Connor was up beat about the group's prospects in the current year, once the RCI operations had been dealt with. "This time last year we reported a depressing picture," he said. "But now we have money in the bank and net assets of £152m."

Berisford reported a net cash balance of £18.6m.

Court hears Polly Peck adviser called a liar

By David Barchard

A BRITISH-trained barrister who represented a number of Polly Peck International subsidiaries in northern Cyprus was described in the High Court yesterday as a self-confessed liar.

Mr Mentes Aziz, a Turkish Cypriot lawyer who acts as an adviser to the British High Commission, and was paid £50,000 for his services to the administrators of Polly Peck after the electronics and fruit group went into administration in October last year, is challenging an injunction freezing his UK assets.

Mr Aziz is one of six defendants challenging an application on behalf of Polly Peck's administrators for an injunction freezing their assets to be confirmed until the case comes to trial.

Mr Asil Nadir, the former Polly Peck chairman, and his mother, Mrs Safiye Nadir, are also among the defendants.

The court was told by Mr David Oliver QC, representing the administrators, that Mr Aziz had received over £1m since 1987 for work purportedly done for the company, and £755,000 in fees for the sale of the Salamis Bay Hotel in July last year when he acted for both parties in the sale, charging a 15 per cent fee from each – a lower sum than he actually appeared to have received.

No fee notes, invoices, or other documentary evidence for the fees had been received from Mr Aziz. A sum close to $10m was supposed to have been remitted to Polly Peck from a second sale of the hotel to the Turkish Cypriot government, but Mr Oliver said that the money which arrived might have been Polly Peck funds held by the Turkish Cypriot central bank in London.

Mr Mark Blackett Orde, representing Mr Aziz, said the main question was not about the facts in the case, but about the inferences to be drawn from them.

There was laughter in the courtroom when, after hearing from Mr Oliver that Mr Aziz had a propensity to remove funds from the UK, Mr Justice Vinelott said: "Yes, and in a suitcase." Judgement is due this morning.

Deadline set for Trachtenberg disclosure

By Richard Gourlay

MR LARRY Trachtenberg, a former director of Bishopsgate Investment Management, was yesterday ordered by the High Court to provide information by Friday about transactions that might lead to the whereabouts of £427m missing from Maxwell company pension funds.

Mr Justice Harman refused Mr Trachtenberg's plea for a longer extension of the disclosure orders obtained earlier this month by the provisional liquidator to BIM, which managed the pension funds.

Mr Trachtenberg will now have to face the provisional liquidator on Friday having signed an affidavit disclosing the background to transactions that led to unauthorised transfer of funds to private Maxwell companies.

Mr Michael Hill QC, for Mr Trachtenberg, who was not in court, argued he would need a further two weeks to provide the information. The Serious Fraud Office and BIM's legal department were still holding copies of documents he needed to make the affidavit.

The provisional liquidator opposed the plea on the grounds that though Mr Trachtenberg might not have access to the documents he had the report of the private Maxwell company finances, prepared by Coopers & Lybrand Deloitte, and an affidavit from Mr Trevor Cook, the manager of Maxwell pension funds, to help prepare his statement.

Mr Justice Harman said that allowing a further 14 days would cause "unreasonable delay" in a case in which Mr Trachtenberg must have knowledge of "remarkable, substantial transactions" with BIM money. It was necessary to try to trap assets that were disposable, the judge said.

"Mr Trachtenberg must be able to give some information which will be useful now," the judge said. "What is wanted from him is not an argument but facts as to what he personally knows."

Mr Trachtenberg was given until 4pm on Thursday to supply a sworn statement to the liquidator prior to the meeting arranged for Friday.

Pensioners showed concern before the Mirror flotation

By Bronwen Maddox and Richard Gourlay

MIRROR GROUP pensioners wrote to Samuel Montagu, the merchant bank, before the May flotation of the newspaper complaining of the investment policy of the Mirror Group Pension Fund, a House of Commons select committee was told yesterday.

Instead of receiving a reply from Samuel Montagu, an adviser to the flotation, Mr Robert Maxwell replied saying lawyers had advised that the Association of Mirror Pensioners' claims were unsustainable.

The committee ordered two of Mr Maxwell's sons, Kevin and Ian, to testify before it on January 13 after they turned down an invitation to testify yesterday, saying they were "otherwise engaged". The demand has the force of a court order.

Mr Giles Orton, a lawyer representing the pensioners, told the Social Security select committee that he was concerned a company buying Mirror Group Newspapers might not have to repair holes in the pension fund – over £250m is believed to be missing from the Mirror Group Pension fund.

Trustees of the pension fund told the select committee that Mr Maxwell had slowly increased his control of the pension fund trust from the time he bought the Daily Mirror in 1984.

"Even in the beginning, when there were seven management representatives and seven employee representives, Mr Maxwell had the fifteenth casting vote," said Mr Brian Chapman, a director of the MGPT.

Mr Chapman said he believed the pension trustees lost effective control of the funds in 1988 when Bishopsgate Investment Management took over day to day management of the pension funds.

Mr Michael Gallemore, another MGPT Trustee, said the first indication he had that something was wrong was a routine management meeting on November 15, this year, ten days after Mr Maxwell's death.

It was only at this meeting that trustees discovered there was a stock lending programme which became a mechanism through which some of the funds were spirited out of the pension funds.

Ashley Ashwood

Tony Boram: chairman of the Association of Mirror Group pensioners

Purchases help Halma rise 8%

By Jane Fuller

ACQUISITIONS AND a drive for exports helped Halma, the safety and environmental control group, to raise pre-tax profits by 8 per cent, from £6.23m to £6.71m, in the six months to September 28.

The share price gained 9p yesterday to close at 159p.

Mr David Barber, chairman and managing director, said the group had "resumed its upward growth path" after a small profit reduction in the second half of last year.

Acquisitions accounted for the first-half profit rise while the other companies in the group had "performed well defensively".

Export sales rose by 31 per cent to £10.9m, with the Continent as the chief destination. Nearly £10m more came from overseas operations, mainly in the US. Almost half the group's £44.4m (£38.9m) first-half turnover lay outside the UK, Mr Barber said.

Memco, a maker of sensors for lift doors acquired a year ago, exported about 75 per cent of its output.

The most recession-resistant businesses were those involved in safety and fire detection equipment, water purification and analysis, and gas detection. Apollo Fire Detectors was the biggest company in the group.

Although the group's margins were not as high as they had been, they were more than 15 per cent at the trading level. Mr Barber attributed this to the specialised nature and strong market positions of the 34 subsidiaries.

One business had, however, been hit by customers deferring capital spending. Microphax, a maker of data reading and storage equipment, had been closed. The £500,000 costs would be taken as an extraordinary item in the full-year accounts.

The group continued its 20-year pattern of making small add-on acquisitions, spending £2.2m cash in the first half. In November it bought two companies that detect water leaks and monitor pipe networks in a share deal worth £3.4m.

The group had £1m cash at the year-end and Mr Barber expected a similar position next March.

Earnings per share advanced from 3.09p to 3.25p and the interim dividend is increased to 0.863p, compared with 0.69p.

De La Rue raises Garny stake

De La Rue, the security printer and payment machine maker, is increasing its stake in Garny to 91 per cent with the purchase of a 30 per cent holding for a total of £31m.

The consideration is to be satisfied by DM52.5m (£18.4m) cash and the issue of 2.73m shares.

Garny is a German manufacturer of banking automation and physical security equipment and distributes De La Rue products in Germany.

It made a strong contribution to De La Rue's interim results.

The £160.3m rights issue announced in October at the time of the £94.7m acquisition of the Swedish-based Inter Innovation company was taken up by holders representing more than 95 per cent of the shares.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Border TV § ....int	1.1	Mar 2	0.88	-	2.1
Brasway ....int	0.24☆	Mar 6	0.24	-	0.51
Bromsgrove Inds ....int	1.5†	Feb 28	1.45	-	3.9
Clayhithe ....int	0.75	Feb 3	1.8	-	6
EFM Income Trust....int	1.2	Feb 14	-	-	-
Faupel Trading §....int	1.85	Jan 31	1.85	-	4.9
For/Col Smaller ....int	0.65	Jan 30	0.6	-	1.65
Gold Greenlees ....int	3.3†	Apr 6	3.3	-	8.3
GWR § ....fin	3	Apr 6	3	4	6
Halma ....int	0.863†	Feb 10	0.69*	-	1.755*
Lee (Arthur) ....fin	4.25	Feb 21	4.25	5.9	5.9
Melville Street ....int	1.5	Jan 24	1.5	-	4.5
Sanderson Elect ....int	5.4	Feb 10	5.4	-	8.7
Southern Electrc ....int	4.9	Mar 24	-	-	10.12
Thornton (GW) ....fin	3.25	Mar 2	2.75	5.5	4.75‡
Trimoco ....int	0.6	Jan 31	0.6	-	1.4
Wilding Office ....fin	nil	-	nil	nil	1.8
Yorkshire TV ....fin	8.7	Mar 20	8.7	12	12

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ☆Scrip option. ‡Special 33.75p also paid.

British Gas signs Czech deal

By Ariane Genillard in Prague

BRITISH GAS yesterday signed a co-operation agreement with the gas company of the Czech republic, placing the UK group in a leading position to invest in Czechoslovakia's gas sector when it is privatised.

The co-operation agreement will include scientific projects with an aim to extend and modernise the gas distribution network in the Czech republic and implement the conversion from environmentally damaging fuels to natural gas.

British Gas said that joint-venture opportunities will be examined once the sector is privatised.

Both the gas distribution companies in the Czech lands and in Slovakia, and Transgas, the company supervising the only gas pipeline in the country, are scheduled to be privatised by the second half of 1992. British Gas, which was privatised in 1986, will be advising the companies in the meantime.

The agreement was signed between British Gas and Cesky Plynarensky Podnik, the gas company which holds a monopoly in the Czech republic, but the British group said it was also conducting negotiations in the Slovak republic.

Both Czech and Slovak authorities have been fighting over control of the sole gas pipeline in the country which supplies gas from the Soviet Union to western Europe. Both privatisation and joint-venture prospects are in the balance until the issue is resolved.

British Gas has recently increased its investment in the region.

It holds 24 per cent of Gasversorgung Sachsen Anhalt and a 25.5 per cent stake in Erdgas West Sachsen, two new gas distribution companies in the former East Germany. Negotiations are also under way in Poland and Hungary.

GPA venture expands range of services

By Tim Coone in Dublin

Shannon Aerospace, a new company dedicated to jet aircraft overhaul and maintenance, and jointly owned by GPA, Swissair and Lufthansa, has announced "a strategic decision" to add maintenance services on both Boeing 757 and 767 aircraft to its range of products.

This brings the company's plans forward by several years to include wide-bodied jets within its marketing framework. Construction work on the I£80m (£74m) maintenance hangar at Shannon airport in the west of Ireland, is well advanced, and is on target to begin overhaul operations next September. In the first two years of operation it was originally intended to concentrate on servicing Boeing 737s and McDonnel Douglas MD80s.

The company said: "This decision . . . represents the next logical step for Shannon Aerospace on its way to becoming Europe's leader in independent airframe maintenance."

The move will put it in direct competition with Team Aer Lingus, a subsidiary of the Irish national airline.

Conroy prepares to fight shareholders

By Kenneth Gooding, Mining Correspondent

CONROY PETROLEUM, the USM-quoted Irish company under siege by its two biggest shareholders which want to replace the entire board, will hold an extraordinary meeting to deal with that issue, probably in late January, said Mr Richard Conroy, chairman.

He admitted his board would find it extremely difficult to win the battle against the two shareholders, Outokumpu, the state-owned Finnish group, and International Corona of Canada.

The confrontation flared after Conroy made an agreed I£7m (£6.5m) offer for Atlantic Resources oil and gas company. The two shareholders want Conroy to concentrate solely on developing its zinc-lead deposit at Galmoy, County Kilkenny. Mr Conroy said there was nothing to stop the Atlantic deal being completed before the meeting. However, even after the Atlantic acquisition, Outokumpu and Corona would own more than 40 per cent of Conroy's issued equity. The board controls less than 15 per cent. The directors could be dismissed by a straight majority vote.

UK COMPANY NEWS

Making the most of a power base

Jane Fuller on Babcock's struggle to maintain its standing in the City

ONE OF the few companies to stand out from the gloom surrounding UK engineering companies has been Babcock International Group, which recently unveiled increases in both its interim profits and dividend.

After an 11 per cent rise in pre-tax profit in the six months *to September 30, the annual* figure is expected to approach £50m compared with last year's £46.7m. The dividend is forecast to go up by 5 per cent, giving a 7 per cent yield, which is the main reason for the shares being held. As for cash, the group had £57m in the bank in September of which nearly half is free for acquisitions.

Yet on a prospective p/e of less than 9 Babcock's shares trade at a significant discount to the engineering sector. Yesterday's closing price of 59½p is only 2¼p ahead of the placing price in July 1989 when Babcock was demerged from FKI, its unlikely electrical engineering partner. The one consolation is that it is way ahead of the 36p that it sank to in January.

*So why is it that the post-*FKI management led by Mr Oliver Whitehead, chief executive, and Mr Erik Porter, finance director, has had such an uphill struggle to restore the 100-year-old company's credibility?

The answers range from its emergence from an "unhappy home" – referring to the two-year marriage to FKI – to general doubts about contractors *that have been all-too amply* illustrated by Davy Corporation's ill-starred oil rig and Howden Group's expensive embroilment in tunnelling machines.

There is also a lingering worry that the length of some of Babcock's contracts – up to seven years – means that it will simply be very late going into recession.

To allay these concerns, Mr Whitehead and Mr Porter have had to reassure the City about the traditional power station side of the business and show that the group's heavy engineering skills can be applied to other markets.

Last year, the breakdown of profits showed that 30 per cent came from energy and manufacturing, roughly 20 per cent each from construction/process plant contracting, facilities management and Africa, and *nearly 10 per cent from the* Claudius Peters operation in Germany.

The main themes of making the most of the power-related base and of applying the skills to other sectors are being hammered out at Babcock Energy's 134-acre site at Renfrew, near Glasgow, which used to be mentioned as Babcock's achilles' heel.

The question was how could the three groups of factories, each like a football pitch in floorspace and a cathedral in height, be filled?

Mr Gordon Law, a Babcock Energy director, says the business, which used to be synonymous with boilers, now specialises in "anything big". To enable huge components to be towed from the site to King George V dock in Glasgow, bus shelters have been relocated and bendable traffic lights have been installed.

A diagram of a flue-gas desulphurisation plant, to clean up emissions from the Drax coal-fired complex in North Yorkshire, includes a double decker bus looking like a ladybird beside a large shrub.

Outside the power sector, Renfrew is handling a wind tunnel, rail bogeys, ships' pro*pellers and ground support* equipment for missiles.

Profitability is far better than it used to be. Babcock Energy now looks for pre-tax margins of 6 to 7 per cent, it used to be happy with 3 per cent.

It has to be admitted that this owes something to the paring to the bone carried out under the FKI regime, notably *at the hands of Mr Jeff Whalley*, who remains Babcock's deputy chairman as well as heading FKI. Lord King, Babcock's chairman, points out that acquisition accounting also helped the process.

Yet the 1987-89 FKI Babcock purge had its limitations. Mr Law says: "We were screwed down on capital investment to no more than depreciation." The sale and leaseback of the site still rankles and the question of FKI's long-term commitment to Renfrew was questioned as potential buyers came traipsing round the place.

Just as important as the cost-cutting has been the bringing in of new orders, particularly short-term ones. While the combined-cycle gas-fired power stations involve Babcock in only a tenth of the *man-hours per mega-watt of* a coal-fired station, Mr Law says the modules for steam generation are the nearest Babcock gets to mass production – one a day.

Renfrew's present order book runs for the rest of this year and for 60 per cent of next. The mixture of work has reduced the need to ask what was formerly a burning ques*tion: "What will fill the factory* the year after next?"

While credit is given for the progress at Renfrew, two worries persist about the group.

One is over the joint venture with Thorn EMI to run the Rosyth Royal Dockyard for the Ministry of Defence. This contract accounted for 23 per cent of pre-tax profit last year, but the flow has since been disrupted, the ministry's Options *for Change document increases* fears of cuts and the contract may not be renewed beyond April 1994.

The second concern is the one about Babcock being slow to go into recession rather than being genuinely recession resistant.

Mr Whitehead's answer to the first is that the worst that can happen at Rosyth is that the profits disappear. As the *ministry owns the place, Bab*cock's investment is negligible.

The gap would be difficult to fill because earlier hopes of managing other government facilities have diminished with the contracting-out programme, which was much livelier in the Thatcher years. However, 10 per cent of the facilities management division's work is commercial, including the recently acquired Tickford rail business.

He gets a little more exasperated when answering the second question. He reiterates his faith that much of the work will not fall off and that tapping new markets will cover any gaps.

Just as Renfrew has been filled, so the construction and process plant contracting side has proved adaptable. "We have already been affected by recession, but we have looked *for work in other sectors: refining, steel, chemicals, plantre*pair and maintenance."

Yet to make progress, even as a yield stock, he says the group needs to make an acquisition that is more than just a small extension to current activities.

Possible targets include manufacturing businesses with annual turnover of between £50m and £100m – a tenth of last year's £760.6m group total. The aim would be to reduce dependence on the UK – which accounts for 62 per cent of sales – and on contracting, which has an 80 per cent share.

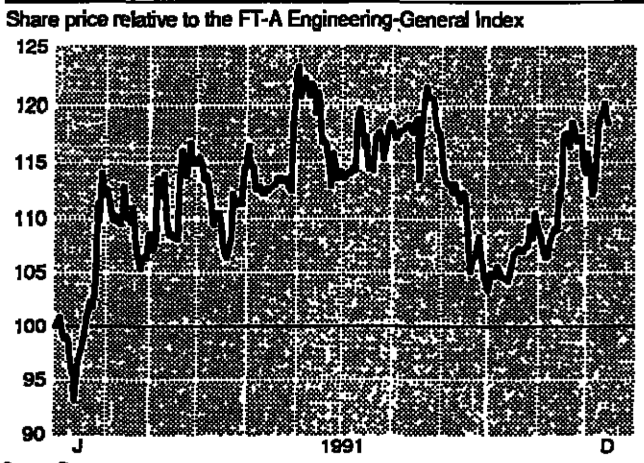
Even though Babcock has cash, it would prefer to make part of any payment in shares – hence the close attention to its stock market rating.

The messages the company has received from analysts are mixed. While some are calling for a quick move, others are worried about the prospect of extra paper and counsel patience. Their reasoning is that if Babcock's performance continues to outshine other engineering stocks, its buying power will be increased by a re-rating of its shares, and its recession-weary targets will be cheaper.

Whenever the deal comes, it will be of paramount importance that it enhances earnings. While it would be nice for Babcock to have a growth element to its image, it cannot afford to jeopardise its yield status.

Babcock International

Share price relative to the FT-A Engineering-General Index



Source: Datastream

The Drax coal-fired complex in North Yorkshire

UK COMPANY NEWS

Southern Electric surges to £14m

By Juliet Sychrava

SOUTHERN Electric yesterday reported profits before tax of £13.7m for the half year to September 30, against £3.2m on a pro forma basis for the corresponding period of the previous year.

Earnings per share emerged at 3.3p (2p) and the interim dividend of 4.9p gave a real increase of 8.5 per cent – towards the top end of City expectations.

"It's not a question of how much we can pay," said Mr Duncan Ross, chairman. "It is more to do with what is acceptable to shareholders and the regulator." Southern expected to sustain real dividend increases of 5 to 8 per cent a year over the long term, he said.

Turnover rose from £650.3m to £745.5m as unit sales in the main distribution business rose 3.9 per cent, with a strong 7.3 per cent increase in sales to domestic consumers.

Industrial sales fell 0.9 per cent. Unit growth should be 2.7 per cent for the full year.

In the supply business, volume sales increased 7.6 per cent. The business should make a small profit at year-end. Retail turnover was up.

Trevor Humphries

Duncan Ross: expected to sustain real dividend increases

The company cut controllable costs, mainly purchasing and manpower, by about £8m, or 3.7 per cent, with 80 jobs lost over the half year, boosting operating margins from 1.8 to 2.5 per cent.

Capital expenditure was also down, at £116m. But the recession brought more bad debts, and the company set aside a provision of £5m for the first half – double last year's figure.

Net current assets were £154.1m against £104.3m the previous year as short-term creditors fell. Gearing fell from 36 to 29 per cent.

●COMMENT

Southern Electric is a City favourite, for the good reason that it is one of few regional electricity companies with a strong and articulate management team. The company reported late in the results season, and thus reaped the benefit of the others' experience: generous dividends have not attracted media or regulatory odium, Duncan Ross' view that if service to customers is good, and price increases fair, Southern's good rate of return on capital will not incite regulatory wrath seems reasonable when the company is achieving sensible cost cuts and managing its capital efficiently. The company's strategy of looking for 15 per cent of profits from unregulated business by the end of the decade is hard to judge today, as is its investment in generation. Less risky and more potentially rewarding is its decision to stick with supply, as a way of keeping customers who might switch to gas, sharpening its market wits, and preparing for any opportunities brought by the future extension of that competitive market to smaller customers. Analyst's full-year forecasts cluster round a £155-£160m range, giving a mid-range prospective p/e of 7.4 and a yield of 6.3 per cent.

Market share up as Border leaps 63%

ALTHOUGH advertising revenues showed a marginal decrease, Border Television lifted pre-tax profits by 63 per cent from a restated £312,000 to £509,000 for the six months to October 31 1991.

Turnover slipped to £5.87m (£6.04m), but Mr Melvyn Bragg, chairman, said Border achieved a 3 per cent increase in market share.

Local advertising revenue rose substantially, but revenue from programme sales fell by £167,000 to £502,000, as ITV continued with revised commissioning and scheduling arrangements brought about by provisions within the Broadcasting Act.

The interim dividend is lifted by 25 per cent to 1.1p (0.88p), payable from earnings per share up from 1.9p to 3.3p.

Yorkshire TV down 29% but shows gain in network share

By Raymond Snoddy

YORKSHIRE Television, producer of programmes such as The Darling Buds of May and Emmerdale, yesterday announced a 29 per cent drop in full year pre-tax profits from £18.4m to £13.1m.

The company said, however, its performance compared favourably with that of other ITV companies, "the majority of whom reported significantly greater profit reductions or, in some cases losses."

In the year to end-September the company paid £10.9m in Exchequer levy compared with £11.6m last year, although this amounted to 45.5 per cent of pre-levy profits compared with 38.7 per cent last time.

Advertising revenue fell by 4.85 per cent, although this reflected a slight gain in network share.

Total costs rose by 1 per cent from £98.5m to £99.5m, including a £900,000 increase in contractual payments to the ITC, National Transcomm and Channel 4.

Earnings per share fell from 32.5p to 22.9p. The recommended final dividend of 8.7p makes an unchanged total of 12p.

Yorkshire re-emphasised yesterday that next year and in the early years of the new 10 year ITV franchises that the directors intended to take "full account of the longer term prospects of the company as well as the then trading conditions."

The company added, however, that although it intended to maintain the current level of dividends this would only happen if "the trading prospects and financial position of the company are satisfactory."

Yorkshire Television bid £37.7m a year in the competitive tenders for new franchises. The only other qualifying bidder, White Rose, bid £17.4m and is now seeking permission for a judicial review of the decision by the Independent Television Commission.

White Rose will argue that the Yorkshire business plan is unsustainable.

Yorkshire has insisted that it will remain in profit throughout the new 10 year franchise.

Yorkshire, in which Pearson, owners of the Financial Times has a 20 per cent stake, had net cash balances at the end of September of £12.9m.

The shares price rose 2p to 154p on yesterday's results.

Recession puts Trimoco into the red

Trimoco, the motor vehicle and property group, was badly hit by the recession in the half year to September 30 and incurred a pre-tax loss of £254,000 against a £1.7m profit last time.

Turnover was down from £133m to £115m.

Although the group turned in a trading profit of £1.99m (£3.83m) the pre-tax figure was hit by a £680,000 exceptional item resulting from the loss on disposal of premises occupied by a former subsidiary.

Automotive trading profits fell from £2.66m to £857,000 while the property side held up comparatively well with profits of £1.13m (£1.17m).

Losses per share were 0.29p (earnings 1.01p), but the interim dividend is maintained at 0.6p.

Poor share performance rules out Thames payment

By Raymond Snoddy

MINORITY shareholders of Thames Television are to lose out on a deferred payment of 20p per share following the company's loss of its television franchise.

In February, when Thorn EMI bought out BET's 26 per cent stake at 250p per share and triggered a bid for the whole group, an extra 50p per share was on offer depending on performance.

The company said yesterday that the first of the deferred cash payments of up to 20p per share would not now be paid.

It was to become payable if the average share price in the 10 days up to December 13 was 330p or more.

Following the loss of the new franchise, which starts at the beginning of 1993, the average share price was in fact 178p. The shares closed at 176p yesterday.

A second deferred payment of up to 30p depends on Thames Television's advertising revenue next year totalling at least £241m.

Given the current state of the advertising recession this target looks unlikely to be met.

Thames is currently directing most of its energies into cutting costs and planning for a future as an independent production company.

It is expected to sell its most popular programmes such as The Bill, Rumpole, Minder and This Is Your Life to other broadcasters.

£241,000 loss at Clayhithe

Clayhithe, which earlier this year implemented a capital restructure and reverted back to active investment, returned a loss of £241,000 pre-tax for the two months to September 30 on turnover of £2.88m.

Pro forma results for the six months to end-September provided for comparative purposes showed net assets per share fell to 87p from 105p six months earlier. A pre-tax loss of £487,000 compared with profits of £2.51m.

Fully diluted losses per share emerged at 0.26p (earnings 9.11p). Directors intend to pay a dividend of at least 2.5p for the year and meanwhile, they are paying an interim of 0.75p. Taken together with November's loan stock interest payment this is a small increase on last year's interim of 1.8p.

Competition and low demand hits A Lee

By Peggy Hollinger

FIERCE PRICE competition and a sharp decline in demand combined to cut pre-tax profits at Arthur Lee & Sons, the steel and plastics maker, from £5.12m to £861,000 for the year to September 30.

Nevertheless, Lee – which is 22 per cent owned by GM Firth, the engineer – maintained its final dividend at 4.25p, making a total of 5.9p.

Mr Peter Lee, chairman, said the group was determined to "remain loyal" to its shareholders, even in bad times.

Sales fell by 13 per cent to £105.6m, although Mr Lee said turnover had dropped by as much as a third in some divisions.

Margins came under heavy pressure in both the plastics and steel divisions. Export margins were hardest hit, with sales in Europe and North America "not remunerative, if we could get them at all," said Mr Lee.

Operating profits in steel and related products fell by 63 per cent to £1.8m on turnover down just 11 per cent to £90.9m. Plastics saw a 67 per cent decline at the operating level to £511,000 on sales down 21 per cent to £14.7m.

Several of the group's subsidiaries incurred losses, which amounted to a total "well in excess of £1m" during the year, Mr Lee said.

Costs had been cut throughout the group, resulting in redundancy payments of £478,000, the loss of 195 jobs, and a squeeze on working capital.

"We have cut out the fat," he said, "and now we are cutting into the bone."

Earnings per share were given a hefty boost by the release of £990,000 in tax credits, arising from the group's capital expenditure plan.

Earnings fell from 11.04p to 5.52p, although excluding the tax credit, they would have dropped to 2.52p.

Bromsgrove falls 15% to £3.5m

By Paul Cheeseright, Midlands Correspondent

BROMSGROVE Industries, the specialist engineering conglomerate, yesterday announced a 15 per cent fall in interim pre-tax profits and signalled its expansion into a new sector with the acquisition of the Imbach Group at a potential cost of £2.8m in cash and shares.

Pre-tax profits for the six months to end-September were £3.5m compared with £4.11m in the same period of 1990. Earnings per share slipped to 6.14p against 6.83p fully diluted, a result which, according to Mr Bijan Sedghi, chairman, was "a reasonable achievement given the very difficult economic climate which has prevailed."

Bromsgrove's four existing divisions had mixed fortunes. Overall turnover increased by 4 per cent to £39.4m, but operating profits were down to £4.6m compared with £5.61m.

Pressure on margins caused problems in the materials and plastics divisions, but both the automotive and the aerospace and offshore divisions increased operating profits.

The interim dividend is raised from 1.45p to 1.5p.

The Imbach Group specialises in the reclamation of damaged capital assets. It is being bought from Re-Tech Imbach of Switzerland for an initial price of £1m, payable by £600,000 cash and 308,404 new shares.

Further payments totalling £1.8m, again in cash and shares, could be made until June 1993, but the precise amount depends on the ability of the Imbach Group to meet specified profit targets.

Mr Sedghi said that Imbach would form the base of a new environmental engineering division within Bromsgrove. The aim is to offer environmental services to companies – foundries, for example – needing to clean up their operations. The new division is expected to grow organically rather than, as has often been the case with Bromsgrove, by acquisition.

Margins affected as Sanderson Electronics slides to £2.4m

By Alan Cane

PRE-TAX profits at Sanderson Electronics, the computing services group, fell 27 per cent in the year to end-September despite a 44 per cent rise in turnover.

The company blamed the "lack of confidence" in most of the economies in which it trades including the UK, US and Australasia.

Sanderson, which joined the main market in January this year, made pre-tax profits of £2.4m (£3.3m) on turnover ahead from £14.3m to £20.5m. Earnings per share fell 23 per cent to 19.2p.

The company's dividend policy is unusual, paying two interim dividends. It paid a first interim dividend of 5.4p in February and a second of 3.3p in July. A first interim dividend for next year of 5.4p will be paid next February.

Sanderson specialises in "open" systems software based on the Unix and Pick operating systems, but it is a broadly based computing services company with interests in maintenance and support services.

According to Sanderson, GA made a "modest" profit on sales of £26.8m. The group also holds a 27 per cent stake in SGA Pacific which operates through subsidiaries in Australia, New Zealand, Singapore and Hong Kong.

COMMODITIES AND AGRICULTURE

Platinum price plunges as Japanese cut their losses

By Kenneth Gooding, Mining Correspondent

PLATINUM'S PRICE plunged by $7.75 a troy ounce yesterday to close in London at $348.65. The drop was triggered by Japanese investors cutting their losses on Tokyo Commodity Exchange (Tocom) contracts to buy the metal for future delivery.

Even though gold fell again in London yesterday – by $2.35 an ounce to $357.30 – platinum is now at a substantial discount to the yellow metal. Platinum for some years has usually traded at a premium to gold of up to $100 an ounce.

Japanese dominate the platinum market and since the beginning of August have been liquidating their contracts in response to a series of bearish developments for platinum, which is primarily used in automotive anti-pollution catalysts and jewellery.

Sales volume on the Tokyo Commodity Exchange yesterday was the highest since May 30 when platinum fell about $30 an ounce after Nissan, Japan's second-largest car maker, suggested it had developed a catalyst based on palladium rather than on platinum and rhodium.

However, analysts were puzzled about yesterday's sell-off because there was no obvious reason for it. Mr Andy Smith, analyst with Union Bank of Switzerland, said the best guess was that General Motors of the US, the world's biggest vehicles group, had promised an announcement today about how it intended to return to profitability. It was widely expected GM would announce more plant closures.

"What's bad for General Motors is bad for catalysts," Mr Smith pointed out.

Sentiment in the platinum market has been bearish for some time because the recession has taken a severe toll of the car industry. Johnson Matthey, the world's biggest platinum marketing company, forecast recently that there will be a supply surplus of 240,000 ounces of platinum in 1991 – an 8-year high.

Other suggestions about the cause of the sudden Japanese sales yesterday included the fact that negotiations between Russia and the Japanese about 1992 platinum supply contracts are going on at present.

Iran taps into world's largest gas field

IRAN ANNOUNCED yesterday that it had tapped into the world's largest gas field, finding reserves worth US$200bn where its Gulf waters meet Qatar's, reports Reuter from Nicosia.

It said its section, called the South Pars Field, holds 100 trillion (million million) cubic feet of gas, plus gas liquids and oil.

The gas lies beneath shallow waters in the Gulf. Qatar, which calls the reservoir the North Field, began producing in August. Reserves on the Qatari side are estimated at 500 trillion cu ft.

Mr Gholamreza Aqazadeh, the Iranian oil minister, was quoted by the Iranian news agency as saying that field was "the largest ever discovery of its kind".

He said the reservoir also held between 2.5bn and 3bn barrels of gas liquids.

"While drilling, oil layers were found at a depth of 1,200 to 1,400 metres the capacity and vastness of which are yet to be determined. However, it is remarkable," Mr Aqazadeh said.

He put the value of the recoverable gas at $200bn, Tehran Radio said.

Iran has the world's second largest gas reserves after the Soviet Union.

Gulf oil industry executives said in September that the Italian firm Technologie Pregetti E Lavori had started drilling three appraisal wells into the field in July under a $37m contract.

Mr Aqazadeh said that Iran was talking with several unnamed foreign firms on developing the South Pars field.

Tehran hoped to secure financing by advance sale of part of gas liquids from the project, the radio station quoted him as saying.

Chile's biological copper project

By Leslie Crawford in Santiago

COMINCO, THE Canadian mining group, yesterday announced a decision to invest $300m to develop the Quebrada Blanca copper deposit high up in the Chilean Andes.

The open-pit mine, 4,300 metres above sea-level, is scheduled to start production late in 1994 with an output of 75,000 tonnes of pure copper cathodes a year. Cominco will be employing a novel mining technique patented in Chile in which the copper is extracted from the ore with the aid of bacteria in a weak solution of warm sulphuric acid. An organic solvent gets rid of the acid, which is recycled. The pure copper is obtained by running an electric current through the solvent.

Cominco has tested the new production method at a pilot plant at Quebrada Blanca and believes it is more cost effective than the traditional processes of smelting and refining.

LME WAREHOUSE STOCKS (As at Monday's close) tonnes

Aluminium	+6,425 to 916,625
Copper	+1,275 to 315,725
Lead	+1,050 to 122,600
Nickel	+1,398 to 11,322
Zinc	-350 to 164,825
Tin	+25 to 13,295

It estimates that its production costs, including debt-servicing, will be a modest 62 cents a lb.

The biggest problem Cominco has yet to face is the acclimatisation of miners to such high altitudes, where lethargy, breathlessness and height-sickness are common ailments. Other high-altitude operations, such as the Choquilimpie gold mine on the Chilean-Bolivian border, suffer from a very high turnover of staff.

Cominco's partners in the venture are Enami, the Chilean state metals refinery and Sociedad Minera Pudahuel, which patented the bacteria heap leaching technique in Chile.

Teck Corporation, another Canadian mining group, is shortly expected to join the group. Teck and Cominco will be contributing $110m of their own capital towards the venture; Union Bank of Switzerland led a syndicated credit for the remaining funds.

The Quebrada Blanca project is the latest in a series of multi-million-dollar copper investments in Chile. These are expected to raise Chilean copper output by at least 800,000 tonnes in the second half of the decade – a 50 per cent jump over current output.

Mr Bryan Morris, Cominco's financial vice-president in Chile, said he did not believe the wealth of projects would depress copper prices. "There are many mines around the world which are closing or which are suffering from declining ore grades. We are optimistic about the price of copper," he said.

Paris milling wheat futures

FRANCE'S FUTURES and options exchange, Matif, plans to launch a milling wheat futures contract in 1992, Mr Gerard Pfauwadel, the exchange's chairman said yesterday, reports Reuter from Paris.

He said Matif had convinced elements of the French wheat trade, including co-operatives, millers and traders, that futures could provide a useful complement to their activity rather than a threat to the current system of European Community food subsidies.

Mr Pfauwadel declined to say precisely when this or two other planned new products – options on currencies and a European stock index future – would be launched.

Australian commodity earnings to drop

By Emilia Tagaza in Canberra

AUSTRALIA'S COMMODITY export earnings are to drop in 1991-92 for the first time in a decade, according to the Australian Bureau of Agricultural and Resource Economics, the official statistics agency.

The drought and weak commodity prices will combine to push the value of commodity exports down 5 per cent to A$39.8bn (£15.5bn) in 1991-92.

The bureau's chief commodity analyst, Mr Michael Kirby, said that despite considerable cost cutting, the net value of farm production was expected to fall by more than 75 per cent to A$215m in 1991-92, the lowest on record.

"The income slump will be particularly concentrated on wool enterprises and those producers located in the drought affected areas of northern New South Wales and south-east Queensland," he said.

Mr Kirby added that significant falls are expected in export values of wheat and sugar. In contrast, the value of wool exports is forecast to increase moderately, with strong growth in export volumes more than compensating for lower prices.

In terms of production, the bureau estimates 1991-92 wheat production at 9.52m tonnes and wool at 841,000 tonnes.

Export earnings from the mineral resources sector are forecast to decline by 6 per cent to A$25.9bn in 1991-92 as export volumes rise only marginally, after many years of strong growth.

Large drops in export earnings of crude oil, liquefied petroleum gas, petroleum products, uranium, copper and zinc are forecast to outweigh rises for iron ore, gold and nickel.

Gold production in 1991-92 is estimated at 232.8 tonnes, iron ore at 121m tonnes, nickel at 67,000 tonnes, copper ore and concentrates at 340,000 tonnes and refined copper at 270,000 tonnes.

Oppenheimer backs tantalum plan

By Kenneth Gooding

MR HARRY Oppenheimer, doyen of the mining industry, is backing a project in Western Australia designed to bring long-term price stability to the tantalum market.

Tantalum is a heavy metal with a high melting point and excellent resistance to most forms of chemical attack. Its most important use is as a powder for the formation of anodes for capacitors. It is also used as the carbide in cutting tools and, as a pure metal, is fabricated for use in chemical plant and aerospace applications.

One of Mr Oppenheimer's family companies is investing in Gwalia Consolidated, an Australian group, which owns Greenbushes, one of the western world's three big operating tantalum mines. Greenbushes needs A$29m for construction of a new tantalum processing plant and crushing circuit and development of hard rock reserves.

Work on this will start soon after Christmas and Gwalia believes that in five years time the Greenbushes mine will account for about 20 per cent of world tantalum supply, estimated by then to be about 3m lbs a year.

Some A$20m (£8.5m) of the necessary cash has been raised by the issue of convertible notes to two groups: Dunstan, a European company that represents Mr Oppenheimer's family interests, and Rockefeller & Company, the investment arm of the New York banking family.

The catalyst for this intriguing association was Mr Jim Ainsworth, a director of Gwalia and one of the principals in Warrior International, a small London-based merchant bank. Rockefeller owns 40 per cent of Warrior and brought in the Oppenheimers.

Funds managed by Rockefeller will take A$15m of the notes which, on conversion, will give them 15.8 per cent of Gwalia, while Dunstan has put up A$5m.

Tantalum prices were extremely volatile in the late 1970s and Mr Peter Lalor, Gwalia's managing director, suggests that this damaged the metal's prospects by encouraging substitution in the capacitor market by ceramics and aluminium. So, when Gwalia absorbed Greenbushes in 1990, its strategy was to stabilise the market.

To this end it recently signed five-year contracts to supply more than 2m lbs of tantalum oxide (Ta_2O_5) at a fixed price of about US$40 a lb for the first four years with the world's two biggest tantalum processors – Hermann C. Starck of Germany and the Cabot Corporation of the US. Gwalia is also supplying Metallurg in New York and Triebacher of Austria. Between them these four account for about 85 per cent of the tantalum processing market.

"We've been able to convince our main customers that the industry will be better off in the long term by taking the volatility out of the market," says Mr Lalor.

To fulfil its contracts, Greenbushes' output will rise from about 300,000 lbs of concentrates (containing about 35 per cent of tantalum) to 400,000 lb in the financial year to June 1992 and to about 650,000 lb in the 1994-95 financial year.

This production increase is expected to be mainly at the expense of tin producers in Thailand and Brazil who supply tin slag, from which tantalum is recovered. Processors say that it costs about US$45 a lb to produce tantalum in this way. Moreover, they expect the cost to rise as environmental pressures increase because tin slag contains uranium.

Gwalia estimates that demand for tantalum was about 3.4m lb last year compared with output of 2.6m lb. The deficit was made up from stocks and from production from tin slag.

Greenbushes has about 30 years of reserves. Mining is by open pit methods at present but in five years time further investment will be needed to go underground. Mr Ray Lynch, Gwalia's chairman, says that construction of the new plant should be completed by October next year and the mine will operate normally while the project is being completed.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 1,640-1,680 (same).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 2.80-3.20 (same).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 1.65-2.10 (same).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 29.50-30.50 (28.00-29.50).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 110-120 (95-120).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.20-2.30 (2.15-2.19).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.80-5.40.

TUNGSTEN ORE: European free market, standard, min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 39-57 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 2.20-2.45 (same).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 7.40 (same).

SA miner studies mineral sands deposit

By Philip Gawith in Johannesburg

ANGLO AMERICAN, South Africa's largest mining house, has announced that it is evaluating a R320m (£60m) heavy mineral sands project on the west coast of the Cape and aims to make a decision early next year on whether to go ahead.

The Namakwa Sands project, about 350 km (220 miles) north-west of Cape Town, would consist of three separate facilities:

● Mining and preliminary concentration of heavy minerals from a sands deposit;

● Further processing of the primary concentrate to produce the metals zircon, rutile and ilmenite;

● And smelting of the ilmenite to produce a titania slag and a pig iron. These products, as well as the zircon and rutile, would be exported from Saldanha Bay, on the west coast.

Anglo says that a decision on whether or not the project will proceed will be influenced by the availability of tax and other concessions from government, which recently announced that it was offering special tax relief to mineral beneficiation projects where a high proportion of the finished product was exported.

The Namakwa Sands project would be heavily export oriented with more than 95 per cent of the revenue being generated by export sales which, at full production, would be about R360m a year in 1991 money.

The volume of annual exports at full production, after 2001, would be: zircon, 120,000 tonnes; rutile, 34,000 tonnes; slag, 212,000 tonnes; and pig iron, 130,000 tonnes.

The available reserve is in excess of 400m tonnes of mineral sands, which should sustain the envisaged mining operations for at least 35 years. Mining would extend from a line 300 metres inland of the high water mark to about 14 km inland, over a width of about 5 km.

If it proceeds, the project will be developed in three mining stages, commencing in 1994, and two smelting stages, commencing in 1996. The estimated capital cost of the completed project is R518m for the mine and separation facilities, and R350m for the smelter, in 1991 money terms. Infrastructure costs and a fresh water pipeline would cost a further R54m.

Occidental spending $120m on Peruvian drilling

By Sally Bowen in Lima

OCCIDENTAL Petroleum is to invest at least US$120m in new drilling operations in Peru over the next two years, following resolution of a long-running dispute with state oil producer Petroperu.

An agreement signed between the company and the Peruvian government commits Occidental to drilling a minimum of 20 wells in the northern jungle during 1992 and 1993. If results are favourable, 12 additional wells could be drilled in the following two years.

Mr Jaime Yoshiyama, the mines and energy minister, predicted that the agreement would convert Peru from a net importer of petroleum to an exporter.

Discrepancies between Occidental and Petroperu had hinged on a dual tariff system enshrined in a 1986 contract. Occidental was to receive one rate for "basic" production, another for "excess". Occidental had claimed some $84m owing from the Peruvian government. During the dispute, oil output has fallen sharply.

Both parties hailed the agreement as another indication of increasing investor confidence in Peru. It followed just a week after the announcement that Southern Peru Copper Corporation is to invest $300m in mining operations over the next five years.

WORLD COMMODITIES PRICES

MARKET REPORT

Aluminium prices closed ahead on the LME yesterday on short covering prompted by market talk of overnight physical demand in the US. Traders said that although a technical bounce in prices was always possible they doubted there would be any significant fresh long-term buying interest with stocks at such a high level. Yesterday's LME stocks rise of 6,425 tonnes took the total to a record 916,625 tonnes. Copper prices closed just ahead following the relatively steady New York market opening. However, dealers said that copper should now fully respond to the sluggish economic background that has been depressing other metals for most of the year. News that LME warehouse stocks of nickel were up by 1,398 tonnes put the market under early pressure and three-month metal quickly fell to $7,150 a tonne before meeting good trade buying and short covering interest to close ahead. London cocoa closed down after a bout of profit-taking. In Chicago December wheat futures again set contract highs before midday on tight nearby supplies, keeping the chart picture bullish. Further forward prices were unable to hold gains because of continued problems the Soviets are having with shipments of previously booked wheat, dealers said.

Compiled from Reuters

London Markets

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$1490.-4.95q	-.375
Brent Blend (dated)	$18.15-8.30	-0.30
Brent Blend (Feb)	$18.15-8.20	-.375
W.T.I. (1 pm est)	$19.50-9.60q	-0.30

Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$198-201	-0.5
Gas Oil	$177-8	-3
Heavy Fuel Oil	$69-71	-3
Naphtha	$187-189	
Petroleum Argus Estimates		

Other		+ or -
Gold (per troy oz)♣	$357.30	-2.35
Silver (per troy oz)♣	385.4c	-1.1
Platinum (per troy oz)	$348.65	-7.75
Palladium (per troy oz)	$82.00	-1.35
Copper (US Producer)	101.8c	
Lead (US Producer)	37.0c	-0.37
Tin (Kuala Lumpur market)	14.65r	
Tin (New York)	254.0c	
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	104.09p	-5.07*
Sheep (dead weight)†	147.15p	-1.08*
Pigs (live weight)†	88.01p	+1.95*
London daily sugar (raw)	$230.6	+3.8
London daily sugar (white)	$273.5	+1.3
Tate and Lyle export price	£234.5	+2.0
Barley (English feed)	£126.5u	
Maize (US No. 3 yellow)	£147.75	
Wheat (US Dark Northern)	£101.00	
Rubber (Jan)♥	48.50p	-0.50
Rubber (Feb)♥	48.75p	-0.50
Rubber (KL RSS No 1 Jan)	216.0m	+1.0
Coconut oil (Philippines)§	$650.0z	+5.0
Palm Oil (Malaysian)§	$380.0u	
Copra (Philippines)§	$410 1	
Soyabeans (US)	£142.5	-1.5
Cotton "A" Index	62.40c	+0.45
Wooltops (64s Super)	417p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Feb t-Feb/Mar u-Jan/Mar y-Jan/Feb z-Dec/Jan. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low
Mar	192.40	193.00	193.20 190.40
May	190.00	192.00	191.00
Aug	194.00	194.40	192.00
Oct	194.00	192.00	191.00

White	Close	Previous	High/Low
Mar	273.0	274.8	275.0 272.8
May	273.3	275.3	274.5 273.0
Aug	277.5	279.7	278.5 277.5
Oct	259.9	262.2	260.5 259.0
Dec	258.9		259.0
Mar	259.9		260.1 259.5
May	259.8		260.0

Turnover: Raw 215 (491)lots of 50 tonnes. White 336 (491)

Paris- White (FFr per tonne): Mar 1500.28, May 1514.64

CRUDE OIL – IPE ($/barrel)

	Close	Previous	High/Low
Feb	18.22	18.38	18.47 18.04
Mar	18.10	18.37	18.39 18.01
Apr	18.05	18.29	18.19 17.96
May	18.05	18.21	18.05 17.85
Jun	18.02	18.17	18.02 17.96
IPE index	18.64	18.94	

Turnover 14621 (24306)

GAS OIL – IPE ($/tonne)

	Close	Previous	High/Low
Jan	175.50	178.50	178.50 173.25
Feb	176.25	179.00	179.75 174.50
Mar	173.50	175.25	174.00 172.00
Apr	169.00	171.00	169.50 168.00
May	167.00	168.50	167.50 166.75
Jun	167.50	168.75	167.50 167.00
Jul	169.00		169.25 168.75
Aug	171.00	174.00	171.00

Turnover 16088 (10254) lots of 100 tonnes

JUTE

C and F Dundee; BTC US$380, BWC US$n/e, BTD US$365, BWD US$405. C and F Antwerp BTC US$380, BWC US$360, BTD US$360, BWD US$360.

COTTON

LIVERPOOL-Spot and shipment sales for the week ending 13 December amounted to 406 tonnes against 330 tonnes in the previous week. Business was on narrow lines. High cost of raw cotton deterred users from increasing their purchases.

COCOA – London FOX (£/tonne)

	Close	Previous	High/Low
Dec	749	758	762 760
Mar	785	792	802 785
May	807	816	825 807
Jul	832	836	846 831
Sep	857	863	871 856
Dec	887	894	898 887
Mar	[illegible]	[illegible]	[illegible]

[illegible]

COFFEE – London FOX ($/tonne)

[illegible]

POTATOES – London FOX (£/tonne)

[illegible]

SOYABEAL – London FOX (£/tonne)

[illegible]

FREIGHT – London FOX ($10/index point)

[illegible]

GRAINS – London FOX (£/tonne)

[illegible]

PIGS – London FOX (Cash Settlement) p/kg

[illegible]

MGMI – London FOX

[illegible]

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

[illegible]

LONDON BULLION MARKET (Prices supplied by N M Rothschild)

[illegible]

GOLD COINS

[illegible]

TRADED OPTIONS

[illegible]

New York

[illegible]

CRUDE OIL (Light) 42,000 US galls $/barrel

[illegible]

HEATING OIL 42,000 US galls, cents/US galls

[illegible]

COCOA 10 tonnes;$/tonnes

[illegible]

COFFEE "C" 37,500lbs; cents/lbs

[illegible]

SUGAR WORLD "11" 112,000 lbs; cents/lbs

[illegible]

COTTON 50,000; cents/lbs

[illegible]

ORANGE JUICE 15,000 lbs; cents/lbs

[illegible]

INDICES

[illegible]

Chicago

[illegible]

FINANCIAL TIMES SURVEY

OIL AND GAS INDUSTRY

Wednesday December 18 1991

The market's new forces

The Organisation of Petroleum Exporting Countries has become more pragmatic in the aftermath of the Gulf crisis. But it is no longer the only force in the market; arguably the Soviet Union today has more bearing on oil prices, writes Deborah Hargreaves

THE GULF war earlier this year altered the political balance in the Middle East which is still in a state of flux: it also changed the politics of oil. A more pragmatic Organisation of Petroleum Exporting Countries (Opec) emerged in the aftermath of the Gulf crisis and is still dictating oil policy today.

The one great surprise for industry observers was the market's reaction to the outbreak of fighting in the Gulf – oil prices dropped by $8 a barrel, confounding predictions that a war would cause prices to soar.

But current moderate oil prices and a pragmatic Opec mask some of the more contentious issues facing the industry next year. The world oil market is finely-balanced between surplus and shortfall and should demand rise faster than expected over the western winter, world capacity could be severely stretched to cope.

Declining Soviet production continues to cast a shadow over world markets and the announcement by the Russian republic last month that it was suspending export licences made traders extremely jittery. However, this has yet to result in any disruption to supplies and it appears unlikely that exports will be halted.

At the same time, markets fear that a return of Iraqi oil to the world stage, along with increasing Kuwaiti production next year, could precipitate a major row within Opec over a resumption of production quotas.

A seasonal drop in demand by March next year should see producers cutting back if they do not want to risk a sharp fall in prices, but as yet the fractious cartel has appeared unwilling to reduce its production.

Opec has, in any case, lost its dominant influence over world markets now that oil is traded internationally on futures exchanges across time zones. Sophisticated hedging techniques are available for companies wishing to insulate themselves from wild price fluctuations. Traders still look to the organisation for indications of policy which can swiftly affect prices, but Opec is not the only force in the market any more.

Arguably, the Soviet Union today has more bearing on oil prices than Opec, and its importance could continue to increase, depending on political and economic events in the vast continent.

Soviet oil production has been in decline for the past two years as its oil industry has faced technical difficulties and equipment shortages, but, with a production level of 10m barrels a day (b/d) it remains the largest producer in the world. This is no mean feat for a continent so close to economic collapse and suggests how strong an industry leader the Soviet Union could become if it had access to western technology.

Almost every western oil company is looking for a way into the USSR, either through joint infrastructure projects or for virgin exploration. But the negotiating process is tortuous and few deals have successfully been concluded.

The planned signing of the European energy charter this week could improve access for western companies to the abundant resources of the USSR, but the way it will work is still unclear. The energy charter is the brainchild of Mr Ruud Lubbers, the Dutch prime minister, who has persuaded 35 countries to sign up with the aim of making western technology available to the energy sector in the USSR and eastern Europe, and of encouraging foreign investment designed to help regenerate the countries' economies.

However, the disintegration of the USSR and moves by the republics to extend their control over local energy production have made it uncertain whether the charter will even be signed by the USSR as a whole. More concrete measures in the charter such as treaties on hydrocarbon use, nuclear safety, energy efficiency, and the environment as well as a procedure for solving disputes may have to wait some time before being implemented.

The USSR supplies the west with between 1.5m b/d and 1.7m b/d of crude oil and delivers about 18 per cent of western Europe's gas consumption – excluding the UK. Gas sales have not dropped off in the way that those of oil have, and the USSR's importance as a gas supplier is set to become as great as its oil market clout. The Soviet Union contains 40 per cent of the world's proven gas reserves and, along with Algeria and Iran, will be the major supplier to western Europe in coming years.

Within Europe, the UK, Norway and the Netherlands hold the bulk of discovered gas supplies and some deliveries are made across national borders, but the European Community is still far from liberalising its internal gas market. Mr Antonio Cardoso e Cunha, the EC energy minister, is keen to promote competition in the European gas industry, but faces entrenched opposition from established suppliers.

Few countries – the UK is a notable exception – have introduced any measure of competition into gas supply which remains the domain of large established monopolies. The EC has now adopted a piecemeal approach to try to prise apart the market power of the monopolies which could result in full third party access – the opening up of the European gas transmission grid to all-comers – by late in the decade.

Privatisation of British Gas in the UK five years ago opened up the market to a certain amount of competition, but the government is still trying to encourage more rivals into the industry. It is currently negotiating sweeping changes to British Gas's business in a round of talks due to be completed by Christmas.

The future of the European gas industry is crucial to the Community's overall energy policy – above all its environmental objectives. Gas is fast becoming the fuel of choice in many European power station projects because it is such a clean fuel.

With the European Commission debating the introduction of a carbon tax by 1993 of at first $1 a barrel of oil, rising to $10 a barrel by the end of the decade, gas is set to retain its pre-eminence.

Oil producers have, understandably, fiercely resisted the imposition of a carbon tax, but companies will have to face increasing calls for cleaner fuels as the environmental lobby gathers pace around the world. For this reason, many of the multinational oil companies are stepping up their efforts actively to explore for gas as well as for oil – gas was traditionally viewed as a waste product of oil exploration and was flared to get rid of it.

While there are few major oil discoveries left to be made in the UK sector of the North Sea, Mr Chris Fay, managing director of exploration at Shell UK, believes there are still large amounts of gas to be found. Discovered reserves in the North Sea now split half and half between oil and gas.

In their quest for oil and gas, the majors are moving away from more mature areas such as the North Sea and into more far-flung corners of the world. This so-called frontier policy sees Big Oil operating in Vietnam, Colombia, Pakistan and other relatively undeveloped regions.

Indeed, many observers are heralding a new era in the oil industry which will see the majors being invited back to some of the Opec countries which nationalised oil assets more than 10 years ago. Opec producers desperately need western capital to complete ambitious capacity expansion programmes in the next three years. As a result they will need to turn towards the big oil companies again with the offer of joint ventures and partnerships.

At the same time, producers are looking for secure outlets for their crude, which has led them into discussions about alliances with downstream companies over the use of their refineries.

The Gulf war also led to unprecedented talks between producing and consuming countries over market technicalities. While these are unlikely to produce concrete results, since so many diverse interests are involved, they have created more of a co-operative environment than the industry has seen for a decade.

The Shell production platform and loading buoy on the Kittiwake oilfield in the North Sea

IN THIS SURVEY

Anthony Robinson, Eastern European Editor, on how the Soviet oil and gas industry is adapting to market economy conditions

Investors get the red carpet

ONE OF the greatest absurdities of the old Soviet economic system was the way it discriminated against the producers of real wealth – particularly the oil and gas industry which has long been the main source of hard currency earnings.

By the same token, however, liberalisation of internal prices, decentralisation and the development of markets should increase the purchasing power of producers and open the door to greater foreign investment.

Thus far, confusion over the shifting locus of political authority, fundamental legal and contractual difficulties, the breakdown in old supply relationships with monopoly producers of pumping, drilling and other equipment and the increasing difficulty of providing food, housing and other basics to oil and gasfield workers has led to a continuing decline in oil production and exports and frustrated expansion of the gas industry.

In the first quarter of 1992, however, the Russian parliament is due to examine a new draft law on the oil and gas industry which is currently at an advanced stage of preparation by 22 working groups of Soviet and international oil and gas industry experts, lawyers, financiers and banks. Announcing this at an oil and gas seminar in London last week, Mr A. S. Tishchenko, director of the leading industry research institute, said the new legislation would "establish a legal basis for the functioning of the oil and gas industry under market economy conditions".

The new legislation has been prepared with a careful eye on foreign practice and is designed to attract large-scale foreign investment. This will be needed to modernise production of oilfield equipment, introduce and operate the latest technology, especially in geologically or chemically complex formations and generally repair the ecologically disastrous and wasteful practices which have severely damaged many, if not most, Soviet production areas.

There remains a danger, however, that a tax regime designed to attract foreign investment will face populist amendments in parliament from those deputies who still equate foreign investment with colonial exploitation.

Without such foreign investment, however, there is little chance of reversing the recent sharp decline in oil output which fell from a peak of 624m tonnes, or 12.5m b/d in 1988 to an estimated 10.4m b/d in 1991. Production over the last quarter of the year alone has been running at around 10m b/d, according to estimates by Morgan Stanley.

In volume terms official Soviet figures put 1990 oil production at 570m tonnes of oil and condensate from 169,000 wells, together with 748bn cu metres of gas.

While oil production fell an estimated 9.6 per cent in 1991, domestic consumption dropped by an unexpectedly low 3.5 per cent. The sustained level of domestic demand was partly because oil was used as a substitute for coal during a coal strike early in the year, partly because domestic oil prices have not kept pace with inflation and partly because of hoarding.

Under these circumstances, the burden of lower production has fallen on the export sector with a decline in exports from 3m b/d in 1990 to an estimated 2.2m b/d in 1991.

Given a further sharp contraction of around 15 per cent in domestic economic activity next year, domestic oil consumption should fall sharply as production at energy-intensive defence and other plants is scaled back and higher prices take effect. But production is also expected to fall by another 1m b/d next year, so the exportable surplus is likely to decline further to between 1.6m and 2m b/d, Morgan Stanley predicts.

According to Soviet experts, the main reason for the decline in oil production is the increasing proportion of production from fields with complex geological and geographical conditions.

Production from the bigger, simpler but older fields has been steadily dropping. Between 1975 and 1990 average well production rates dropped from 22 tonnes to 10 tonnes while the average production rate of new wells has fallen by a third from 58 to 17 tonnes a day, according to Mr Valentin Bykov, from the Ministry of Oil and Gas. Meanwhile, however, investment costs have quadrupled from Rbs7.6bn to Rbs28bn.

Investment needs are expected to continue rising fast as output switches increasingly to more distant, deeper or offshore sources. At the same time, heavy investment is required in the oil engineering industry which not only produces technologically obsolete equipment but does so in monopoly plants in places like Azerbaijan which have been vulnerable to ethnic and other conflicts.

In theory, many military plants should be capable of conversion to civilian production of oilfield equipment on a large scale, including urgently needed tubes of all diameters. Until now, however, little such conversion has taken place.

The next few years however should see a dramatic increase in foreign participation in the oil and gas industry as authority is transferred to the republics and greater initiative is given to producers. In London this month Mr Garri Ongemakh, head of power mechanical engineering at the Soviet ministry of oil and gas, singled out several specific areas for future foreign co-operation. These include the Tengiz field in Kazakhstan and projects in the Okhotsk sea and the Stockman gas field.

"It is envisaged that a whole set of problems could be addressed jointly with foreign firms – including the deep processing and utilisation of gas, production and deep refining of heavy oils, the development of the Okhotsk, Barents and Caspian sea shelves as well as the oil and gas fields of western Siberia, Kazakhstan and the north European part of the country," he said.

In the oil technology field, he added that the Soviet oil industry, in its new republican form, hoped for the involvement of foreign firms in the production of sucker rods, ball and steel valves, hydro-electric drives, bottom hole safety valves for production wells, Christmas trees, turbo drills and a long list of other products to be manufactured in various forms of co-operative ventures ranging from joint ventures through leasing to compensation deals or straight licensing agreements.

Tony Andrews

Smoke billows out of factory chimneys in Leningrad, but there has been a sharp decline in output from the world's largest oil producer and exports have plummeted

OIL PRICES

'All eyes are on Boris Yeltsin'

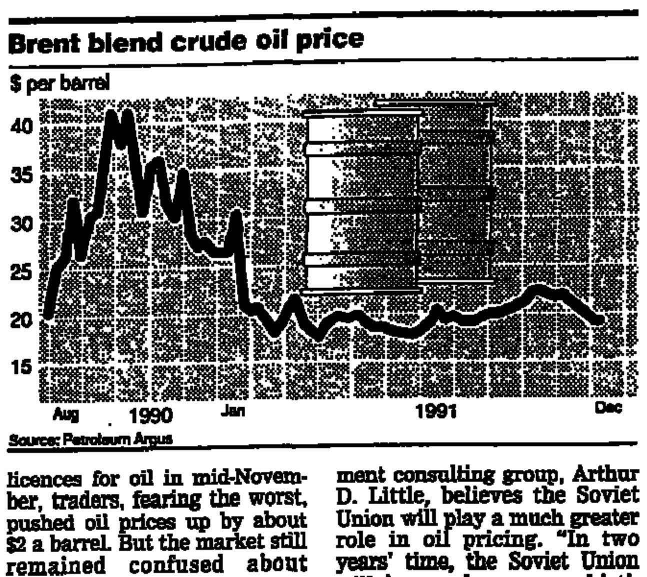
AS WAR broke out in the Gulf in January this year, world oil prices experienced their largest-ever daily fall of $8 to $20 a barrel for Brent North Sea crude oil, confounding predictions that the fighting could push oil over $60 a barrel or higher. Since then, the market *has remained at more or less* this level, with a few short-lived gyrations upwards and downwards.

Since the Gulf war, 11 producers in the Organisation of Petroleum Exporting Countries (Opec) have been pumping oil flat-out to cover any shortfall that could arise from the lack of Iraqi and Kuwaiti oil in the market. Producers have been stretched to meet demand which – albeit stagnant in the west – has been rising in south-east Asia and this has kept prices fairly buoyant.

In addition, output from the UK sector of the North Sea has been depressed while companies perform major maintenance work and production from the Soviet Union – the world's largest oil producer – is in decline. Soviet output has dropped by some 2m barrels a day (b/d) in the past two years as the sector has experienced technical difficulties and is currently around 10m b/d.

Indeed, in the past six months the market's focus has shifted from Opec policy to the situation in the Soviet Union. Declining Soviet production and a drop in exports to the west, or even a halt in exports altogether, has obsessed the oil market – particularly in the wake of the August coup.

When Mr Boris Yeltsin, president of Russia, announced the suspension of all export



licences for oil in mid-November, traders, fearing the worst, pushed oil prices up by about $2 a barrel. But the market still remained confused about exactly what the action meant and prices later slipped back.

If exports from Russia – which produces 90 per cent of Soviet oil – were to grind to a halt, prices would soar since *other producers are currently* stretched to full capacity and would find difficulties in picking up the slack. The Soviet Union exports some 2.7m b/d with about 1.5m b/d destined for the west and the rest directed at eastern Europe.

Russian exports have slipped in recent months – the International Energy Agency, the west's oil watchdog, estimates that they fell by 800,000 b/d in the first eight months of the year after output dropped from 10.65m to 10m b/d. The IEA expects production to fall further by 9 per cent by next February to 9.7m b/d.

Over the longer term, Mr Brian Sweeney, at the management consulting group, Arthur D. Little, believes the Soviet Union will play a much greater role in oil pricing. "In two years' time, the Soviet Union will be much more sophisticated about the market and over a decade, it could prove a moderating force on prices."

Meanwhile, prices are likely to rise this winter. "All major *markets* are well stocked with winter heating fuels," says Mr Joe Stanislaw, oil consultant at Cambridge Energy Research Associates, "but now the market is looking to the winter weather – will it be friend or foe? And all eyes are on Boris Yeltsin, god of incremental Russian supplies. The market's anxieties are further heightened by uncertainty over Iraqi and Kuwaiti supplies and economic growth, or more accurately, the lack thereof."

It is still not certain what will be the effect of Mr Yeltsin's November decree. Loadings are so far taking place as usual at Soviet ports and it would, in any case, take at least three weeks for any halt in exports to take effect. But the market remains extremely anxious about any disruption.

The weather this winter in the west will be an important factor in directing prices over the next couple of months. Mr Stanislaw believes that November oil prices, artificially buoyed by fears over Soviet production, were at least $2 a barrel higher than dictated by market fundamentals.

He expects prices to rise by $1 to $2 from the current level of some $22 to $23 a barrel for Brent this month as the colder weather sees companies drawing down their oil stocks.

However, if the weather this winter were normal or warmer than usual, that could keep prices low. Many observers are fairly sanguine about price levels until February next year when – barring unforeseen circumstances – they could weaken substantially as demand moves into a seasonal decline and producers continue to pump oil flat-out.

By the second quarter of next year, production from Kuwait will be higher and Iraqi crude could start to reach the market. Kuwait's oil minister said recently the emirate is currently producing 500,000 b/d and plans to increase output by 50,000 b/d a month up to a level of between 1.5m b/d and 1.7m b/d by the end of next year.

At the same time, Iraq has said it could export 1m to 1.5m b/d if sanctions were lifted and Baghdad is confident it will be capable of producing its full Opec quota of just over 3m b/d by the second half of next year.

Baghdad is currently resisting a plan agreed by the United Nations to allow it to export $1.6bn-worth of oil to earn cash for humanitarian needs. The regime believes the plan to sell the oil through UN auspices will give the body too much influence over its internal affairs and there are even reports it has been burning crude rather than agree to the plan.

But the uncertainty over Iraq's return to the market and the internal wrangling it will create inside Opec is a worry hanging over the market for early next year.

Opec faces some tough negotiating if it is not to see oil prices eroded next spring, but disruption in the Soviet Union could come to the organisation's rescue if exports drop enough to buoy prices and make way for a return of Iraq to the market.

Deborah Hargreaves

An outline of the Scott field on the same scale as central London.

Michael Bond on the growth in capacity

Opec aims to slake the world's oil thirst

MOST EXPERTS agree that the world's thirst for oil will grow substantially in the next decade. Many mature fields will soon run low, unleashing an intensified scramble for new fields and to improve the yield of existing ones. Most of this growth will occur in Opec countries, because costs are lower and Opec nations have the largest reserves.

Opec today produces about 22.5m barrels a day (b/d), only 38 per cent of the world's 60m b/d; the Opec Middle East contributes barely 25 per cent. But of the world's proven reserves of one trillion barrels (45 years at present consumption), 77 per cent lie in Opec countries, and 65 per cent of these are in the Opec Middle East.

"Oil resources have never been scarce and are unlikely to be so in the next decade at least," says Sheikh Ahmed Yamani, now chairman of the Centre for Global Energy Studies in London. "What usually causes concern is the fact that capacity [maximum potential production] is either inadequate or too great." Capacity should be, he recommends, about 10 per cent above expected production.

During 1991, with Iraq and Kuwait out of production, Opec nations have been operating at 97 per cent capacity, that is to say with only 3 per cent spare capacity rather than the 10 per cent recommended by Sheikh Yamani. "This tight situation," says Opec's Dr Ibrahim Ismail, "is becoming alarming, since any supply disruption may lead to a crude shortage and consequently a sharp rise in crude prices." And Opec's producers have learned the inverse side of supply and demand: that rising prices shrink demand.

By 1995, however, Dr Ismail estimates that Opec will produce 26m b/d, with a spare capacity of 24 per cent. By 2000 it will produce over 29m b/d, with a spare capacity of 22.5 per cent – similar to its 20-26 per cent range during 1988-89. But here the similarity ends: whereas total Opec capacity was about 27m b/d from 1984-90, it is expected to rise to 34m b/d in 1995 and 38m b/d in 2000, increases of 26 per cent and 41 per cent respectively.

To provide for this enormous capacity rise, Dr Ismail notes that "ambitious expansion programmes" will be undertaken by Opec members. This additional spare capacity "will be adequate to stabilise the oil market and keep prices at a moderate level," he adds.

"When there was a lot of capacity, no-one wanted it," says Mr Philip Starling, head of the oil industry division at the International Energy Agency. "Still, we remain *confident there'll be enough to* meet demand." In fact, he adds, there may be "a tendency to overinvest".

Mr Robert Esser, a senior consultant at Cambridge Energy Research Associates, also predicts that "supplies will increase rapidly, most notably in Opec and Gulf countries." The biggest surge, he says, will be the return to capacity in Kuwait and Iraq, but unlike Opec, he feels there will be a 3m b/d increase in non-Opec countries from 1993 to 2000, principally in the UK, Norway, Brazil and Mexico. In the UK alone, he adds, the discovery of "larger than expected fields such as Nelson Petrol and Scott, with over 400m barrels each," will bump up production.

Among Opec members, only Ecuador will not add to present sustainable production capacities by 1995. The largest single increase will be in Saudi Arabia; with a present sustainable capacity of 8.15m b/d, it will add 1.85m b/d by 1995 and another 1m b/d by 2000, an overall 35 per cent rise.

As with most countries, Saudi Arabia's increase will be based on new discoveries, and water pumping and other "enhanced recovery" techniques to augment production of existing fields. In Iraq and Kuwait it will also include restoration of oil installations and wells damaged during the Gulf War. Of the investment needed, $12-17bn alone would go to Saudi Arabia, and another $10-15bn to Iran, primarily, says Opec, because the cost per barrel to increase capacity is lowest there.

"It is sometimes more economic," Dr Ismail says, "to develop new oilfields rather than invest in mature fields, in order to maintain or reduce the rate of decline in production. In other cases, it may be more beneficial to maintain a mature oilfield using enhanced recovery techniques or additional drilling, rather than develop a new oilfield, especially when the latter is in a *remote area*, small in size and/or relatively deep."

But "aggressive reservoir management," says Mr Esser, will also increase production totals. Not only were some fields postponed due to low crude prices in the mid-1980s, but total recovery in others is likely to be higher than was once expected.

Expanding capacity is expensive: it costs about $10,000-15,600 for every barrel/day that is added to sustained capacity. Thus, Opec estimates, enlarging 1995 capacity by 4.95m b/d will cost $50-77bn. The Centre for Global Petroleum Resources has similarly estimated that Gulf producers alone need about $70bn to increase their net capacity by 5m b/d.

"The problem of raising the required finance," says Dr Ismail, "is a major task for Opec member countries, almost all of which are overburdened by external debt." The heavy investment needed to bring new oilfields on stream is further cramped by the $100bn necessary to repair Kuwait and the even greater amount needed for Iraq.

Producers are making overtures to cash-rich companies

There is not enough money *in oil-producing countries*, says Sheikh Yamani, to pay for the exploration, drilling and facility and pipeline construction to bring new fields on stream. "It is a vicious circle that can be broken if the oil companies are willing to provide investment funds."

But since the catastrophic oil nationalisations of the 1960s and early 1970s, the major oil companies are justifiably reluctant to place themselves twice in the same trap. Although the dismantling of the concessionary system "was a historical inevitability," the sheikh notes, BP lost over 70 per cent of its crude supply, Gulf and Mobil about 60 per cent, and Shell nearly half.

Caught in a squeeze between the prospects of lowered production and the lack of cash to expand it, fiercely nationalistic Algeria has reluctantly offered for sale part of its Hassi Messaoud fields; other producers as diverse as Venezuela, Nigeria, the Soviet Union, and even implacable Iran are making overtures to cash-rich companies.

Sheikh Yamani says for a company to invest in production ventures "it must have considerable faith in the political stability of the producing country and the willingness of its government to honour agreements." If that exists, says Mr Alfred Decrane, Texaco chairman, "there need be no conflict between the oil operator's control of his business and the host nation's responsibility for its resource patrimony."

With both Opec and non-Opec producers hustling to increase capacity, will the world face another oil glut, forcing down prices, and leading to later constraints on production? It is unlikely, say the experts, but they acknowledge it is easier to expand capacity than to ensure it will be sold.

Deborah Hargreaves on the mood inside Opec

Moderates hold sway

THE GULF War did much to change the fragile balance of *politics in the Middle East* – it also shook up the shifting coalitions inside the one of the world's most political bodies: the Organisation of Petroleum Exporting Countries.

In the aftermath of the Gulf war, Opec has emerged as a more conciliatory body than it was before as Saudi Arabia has increasingly asserted its dominance over the oil producers' cartel. While Iraq remains muzzled and internationally ostracised – it will not agree to a United Nations plan that would allow Baghdad to export a limited amount of oil while sanctions remain in place – and Kuwait is still getting its oil industry back on its feet, Saudi Arabia is exerting moderation over the fractious organisation.

Opec policies have, for the past few years, been dictated by the constant attrition between Iraq's notorious price hawks and the furiously over-producing Kuwaitis. The Iraqi military threat became increasingly pressing in meetings running up to the Gulf war when delegates accused Kuwait of over-production which was depressing prices.

The Gulf war changed all that – prices soared overnight when Iraq invaded Kuwait, touching $40 a barrel in late 1990. But the ability of the organisation to pull out all the stops to meet consumer demand calmed the market and meant that prices actually experienced their largest ever daily fall at the outset of fighting.

It was chiefly Saudi Arabia's ability to boost output from its Opec quota of 5.4m barrels a day (b/d) to over 8m b/d that quelled market fears of a supply shortfall. Most producers managed to raise production to close to capacity – this brought about another important change in the balance of power within the organisation since most countries had previously been coy about peak capacity levels.

All of a sudden, more light was cast on the negotiating process and, more importantly, the smaller countries recognised Saudi Arabia's massive market clout. At the same time, Saudi Arabia's military partnership with the US in the Gulf war made the kingdom more sensitive to President Bush's need for moderate oil prices to pull the US out of recession.

The first Opec meeting after the war confirmed the body's new moderate direction: production levels were kept informal and producers were all asked to cut back by 5 per cent. Mr Mehdi Varzi, Opec watcher at Kleinwort Benson in London, remarked: "For the time being, the US is the 14th member of Opec."

One of the nations to gain most from the new direction inside Opec is Iran. Mr Gholamreza Aqazadeh, Iran's oil minister, had long been looking for a bigger say inside the organisation as well as to escape its historical parity with Iraq in production quotas.

Tehran's neutral stance in the Gulf war allowed Mr Aqazadeh, a traditional price hawk, to enjoy a closer relationship with Mr Hisham Nazer, the Saudi oil minister. This was cemented in May this year, when Mr Nazer became the first Saudi oil minister to visit Iran in 10 years. Key policy decisions have often been decided in closed meetings between the two ministers.

But the relationship has not been totally harmonious as Iran's pressing economic problems are forcing Mr Aqazadeh to continue to speak up for higher prices. His key concern is for the second quarter next year when he fears a price collapse may be precipitated if producers do not restrict themselves to their production quotas.

Saudi Arabia favours a more informal approach to production and has repeatedly called for voluntary cuts in output. In addition, it insists that the quota system is not based on realistic levels and should be much closer to actual capacity figures.

Mr Nazer has not been shy of repeating his intention of never cutting back to 5.4m b/d again – Saudi Arabia's Opec quota – and his insistence that Saudi Arabia will not be a *swing producer. This caused a* row at a recent Opec meeting when Mr Nazer threatened to leave the organisation – intensely annoying his Iranian ally. No-one takes his threat seriously, but it does highlight a possible row that could be brewing over next year's production levels.

Saudi Arabia has traditionally had a more rosy view of the market outlook than some of its fellow producers and its demand forecasts are always optimistic. However, if production from the Soviet Union drops further this winter and if the weather is colder than usual, the organisation could be saved from some tough negotiations over production levels. This is clearly what the Saudis are banking on.

But other smaller producers such as Nigeria and Algeria could back the Iranians in pushing for a return to production quotas which essentially mean a large cut for Saudi Arabia and only moderate reductions for other countries.

Saudi Arabia could be willing to cut to about 7.5m b/d, but is unlikely to accept any further reduction. The kingdom will, in any case, face a major maintenance programme next year which could affect some production.

Five producers – Algeria, Nigeria, Indonesia, Libya and Gabon – have formed a splinter group within Opec to discuss the price differential between their sweet, light crude oil and the heavier oil produced by others in the organisation. They insist current talks are focused on co-operation between themselves and are largely technical, but there are fears they could form a break-away group.

Nevertheless, Opec's hold over the world oil market has diminished now that oil is traded on international futures markets and would be weakened even further if it were to split apart.

The diverse coalition has weathered many storms in the past and has usually emerged unscathed. Its future is probably as an important talking shop rather than as a dictator of world oil policy.

The threat to the monopoly power of British Gas

Therm wars loom

THE UK gas industry is currently in a state of flux as nascent competitors to British Gas seek to expand their customer base and the government tries to break the monopoly power that the dominant utility still retains over large parts of the market.

The UK industrial gas market has been open to companies competing with British Gas since the utility was privatised in 1986, but few real alternatives to British Gas have emerged. Now, the government is planning to throw open household gas supply to British Gas rivals by 1996.

Industry changes have presented key opportunities for British Gas competitors to come forward – these tend to be the large oil companies which have access to gas as part of their oil discoveries. But some foreign gas suppliers have shown an interest in the UK market and a couple of the newly-privatised regional electricity companies are diversifying into gas supply.

However, one of the main drawbacks to the development of real competition has been the lack of available gas supplies for rivals. The long-term nature of investment in new gas fields means that British Gas has bought up most of the available supplies up to the middle of the decade. Even the large oil companies have contracted whole new fields to British Gas.

This has meant that competition has developed more slowly than the regulators and government would like. An investigation by the Office of Fair Trading this year found that new suppliers are unlikely to achieve more than a 4-5 per cent share of the market in the next few years.

In a bid to free up some gas supplies in coming years, the government ruled in 1986 that British Gas could buy no more than 90 per cent of gas from new fields. At the same time, Mr James McKinnon, director-general of gas supply, the industry regulator, called on the company to free up some of the supply it had already contracted to take.

British Gas last year introduced a series of swap deals which allocated gas to rivals in return for them swapping gas back in two years' time when their own supplies become available. But Mr McKinnon criticised the plan, saying it did not go far enough and discriminated against companies without supply to swap back at the end of the two years.

In a sweeping report published in October, the OFT has now recommended that British Gas sell off large amounts of gas to competitors which it has already contracted to supply to industrial customers. In effect, it means auctioning off some of British Gas' supply contracts.

The OFT wants British Gas to auction off some 7.5bn therms of gas to competitors in the next four years compared with the 500m therms so far made available under the gas swap scheme. This would reduce the company to a 25 per cent share of the industrial gas market – the OFT has pointed out to British Gas that the Fair Trading Act classifies any company with more than a 25 per cent share of a particular market as a monopoly.

British Gas is now involved in tough talks with the OFT over this recommendation and over the proposal to hive off its pipeline division into a separate company and open up the domestic market to competitors.

"What happens if customers go without gas because of a glitch in the system?"

The company has to agree on a method to implement these recommendations by Christmas. Otherwise, it would face an inquiry by the Monopolies and Mergers Commission which could impose even more stringent measures on it.

When he released the report, Mr Peter Lilley, trade and industry secretary, said: "Increased competition backed by early release of substantial supplies by British Gas would have major benefits for industrial and commercial customers."

The government has since passed legislation that lowers the threshold at which competitors can supply gas to the UK market – opening up a much larger part of the industrial and commercial market to rivals. Up till now, industrial customers have been required to use 25,000 therms of gas a year before being able to choose a rival supplier.

The new legislation, however, reduces this threshold to 2,500 therms, meaning offices and commercial premises could now have a choice of supplier. Large household customers use about 600 therms a year and it will not be until 1996 that this lucrative section of the market is open to competition.

British Gas is arguing forcefully that many of the consequences of the OFT report have not been thought through. Mr Robert Evans, chairman, recently warned about the dangers to gas supply if British Gas is forced to implement them.

He said that hiving off British Gas' 260,000 miles of pipelines into a separate company could mean customers are charged more for gas if they live in the south of the country rather than in the north, nearer the North Sea gas fields. At the same time, he questioned British Gas's continued investment in research and development in its UK home business if it were not to preside over it in the long term.

Mr Evans' negotiators are currently trying to convince the OFT of these arguments, but the OFT has indicated it is prepared to accept a certain amount of disruption to the market if true competition is to be achieved.

However, competitors themselves were almost as surprised by the OFT report as British Gas was – oil companies are extremely cautious about buyers for their gas and have preferred to sell it in large loads to British Gas. In addition, the rise in demand for gas from UK power stations has increasingly tied up supplies.

Observers say that it is not enough for British Gas to relinquish market share: rivals must also take a more imaginative approach to marketing their gas.

Mr Jonathan Stern, gas expert at the Royal Institute for International Affairs, is sceptical of competition for its own sake and says there is a real danger for supply if British Gas' domestic monopoly is eroded.

"These issues are social and political dynamite. Can you imagine what happens if domestic customers go without gas for even a short amount of time because of a minor glitch in the system?"

Deborah Hargreaves

US GAS INDUSTRY

Clean air laws may be vital

NATURAL GAS producers in the US are hoping that new clean air legislation will do what low prices were never able – convince American consumers to use gas.

The US, in many ways, is an energy company's dream – a vast land mass with far-flung cities and an intemperate climate with a large need for fuel, both for transportation and heating. Its citizens consume more energy on a per capita basis than other industrialised nation.

But the gas industry has never been able to convince American consumers that natural gas is clean, inexpensive and safe and that supply can hold up during cold winters.

In recent years, the industry's fundamentals have been driven by the deregulation in the early 1980s which created conditions conducive to cost undercutting. Competition among interstate pipelines blossomed after the creation of an open access transportation system. And the monthly bidding process for 30-day spot natural gas supplies left prices extremely volatile and generally very low.

The last year has been particularly hard on wellhead producers. Exceptionally warm weather last December combined with surplus gas in storage to drive January's price down by 30 per cent and the erosion continued through the summer, when spot prices hit historic lows. July prices averaged just over $1 per million British thermal units (Btu).

Furthermore, according to Mr Thomas Driscoll, an analyst at Salomon Brothers, the industry had expected to return to long-term premium price contracts but it has not been able to revert to that. "There's no need to buy at premium price because you can buy any quantity you want on the spot market. It would be difficult for any buyer to prove it was prudent to pay 25 per cent above the spot market."

Mr Driscoll expects spot natural gas prices to average only $1.30 to $1.35 per million Btu in 1991. This compares with an average of $1.46 in the second half of 1986 and throughout 1987.

Producers contributed to the pricing problem by maintaining production levels as they tried to push sales higher in an attempt to soften the impact of plunging prices.

The price collapse has not yet had the anticipated depleting effect on natural gas reserves. Partly as a result of technological advances, lower drilling levels have not resulted in a significantly lower level of available gas, although many analysts expect a supply shortage in the long term.

Mr David Biegler, president of Enserch, a Dallas-based diversified energy company, had harsh words for the industry at a natural gas conference in Dallas in October. He said the changes in the years since deregulation had led to a lack of pricing discipline, infighting, instability, uncertainty and lack of cohesive support.

"This is not a fragmented industry but an undisciplined one. It too often views itself as the innocent victim of external forces when in fact, it would benefit most by constant reminders that it is the victim of its own collective misjudgements and actions," said Mr Biegler.

The depressed prices have, in effect, driven most independent players out of the industry. Ten sellers now control about a third of production and 20 control half. But the damage has been far-reaching. Value Line rates the diversified natural gas industry at the bottom of its list of 98

Continued on Page 4

EUROPEAN COMMUNITY

Heavily-entrenched industry nudged towards free market

THERE IS a case for declaring October 29 an EC-wide public holiday – European Gas Day, perhaps – which would probably be celebrated by natural gas consumers and greeted with curses by the Community's big gas monopolies.

On October 29 1990, Mr Antonio Cardoso e Cunha, the EC energy commissioner, announced in Luxembourg that ministers had agreed in principle on the gas transit directive, which should make it easier for gas utilities in one country to transport their gas through pipelines in neighbouring member states.

It was a long struggle for the Portuguese commissioner. A parallel electricity transit directive was voted through by energy ministers in May 1990, but the gas measure was virulently opposed by Germany and the Netherlands – home, respectively, to Ruhrgas and Gasunie, two of the EC's most powerful gas companies – and in the end adopted against their will.

In the process, according to the industry, the commissioner won support for the proposal by indicating that the directive was not the first step towards a European "common carriage" system, which would grant all-comers access to energy networks.

Exactly one year later – October 29, 1991 – Mr Cardoso e Cunha again addressed the EC energy ministers in Luxembourg. The Commission was proposing a three-step approach to the completion of the single market in gas and electricity and third party access to energy networks. Step one, he told the ministers, had already been unveiled: three directives on price transparency, electricity transit and gas transit.

Such a combination of cajolery and sleight-of-hand is characteristic of Commission tactics in many sensitive areas of EC policy-making. But few areas are more sensitive than energy, and Mr Cardoso e Cunha is justifiably proud of the progress he has made since taking on the portfolio three years ago, in nudging one of the most heavily-entrenched and monopolistic Community industries towards the free market.

A combination of cajolery and sleight-of-hand characteristic of Commission tactics

Hardly mentioned in the original single market programme – perhaps an indication of its sensitivity – liberalisation of the energy sector is vital to the establishment of a genuine internal EC market, according to many Commission officials. As one puts it: "How can you say you have an internal market if a fertiliser producer in the UK doesn't have access to a gas feedstock on the same terms as a fertiliser producer in Italy – even if you've broken down the barriers to the supply of fertilisers between member states?"

But Mr Cardoso e Cunha now faces his greatest challenge. There is no consensus on third party or open access. The expression "common carriage" has been quietly dropped from the Eurojargon on the grounds that it implied that existing consumers might have their gas supply cut off in favour of new clients.

The bulky report on third party access by committees of member states, consumers and industry, published in May, talked of "appreciably divergent points of view" among the 12 country representatives, and "major differences of view" among the gas professionals.

For example, Eurogas, which represents the EC industry, believes that open access could jeopardise security of supply; lead to the collapse of the important take-or-pay contracts, which it claims secure the funding of large infrastructure projects; increase gas prices and undermine the existing system by replacing it with "creeping regulation and loss of efficiency".

By contrast, Cefic, which speaks for the EC's chemical industry – a major energy user – says gas prices will fall as new gas companies are encouraged into the open market, with obvious benefits for European industry and the EC economy.

Faced with such a lack of consensus, the European Commission decided to follow its original instinct on liberalisation of the gas market and push on towards open access. Indeed, to the anger of the industry, which claimed its technical objections were being ignored, Sir Leon Brittan, the competition commissioner, began to suggest that special legal powers could be employed, which would allow Brussels to adopt legislation to break up energy monopolies – a so-called Article 90 directive – without having to ask member states' approval.

Britain backs the EC's strong line, but Germany and France want the status quo

Since the summer, however, the run-up to last week's crucial Maastricht summit of EC leaders has made the European Commission nervous about upsetting the member states. On this occasion, Britain, which has already introduced a measure of open access through privatisation of its energy utilities, is in favour of the Commission's strong line, but Germany, France, the Netherlands and Spain all want to maintain the energy status quo.

So, instead of submitting formal directives to the energy ministers on October 29, Mr Cardoso e Cunha tentatively outlined his three-stage plan for opening up the market.

It will have disappointed the liberalisation zealots. In stage two, which should coincide with the opening of the internal market in 1993, large industrial users will be granted access to the gas networks. But full liberalisation will have to wait until 1996 at the earliest and the actual details will depend on the success of the second phase.

Formal measures will be submitted by the end of this year, but it seems unlikely that an article 90 directive will be among them. That may not matter. The gas industry has already been rattled by the threat of a break-up, and that may be enough to make it come quietly if, as seems inevitable, the Commission succeeds in pushing through an ordinary directive encouraging open access. As one senior Commission energy official put it, before October's meeting of ministers, "You can fight football hooligans by increasing the number of policemen in the stadium. Or you can try to control hooliganism through social pressure – but it's still useful that the hooligans know the police exist."

Andrew Hill
Brussels

NORTH SEA OIL PROSPECTS

Sweep of a dustbin and brush

UK OIL output from the North Sea peaked late this year at over 2m barrels a day (b/d) from depressed levels earlier in the year as a heavy burden of maintenance work shut down oil platforms for longer than expected. Mr Colin Moynihan, energy minister, predicts a significant increase in production by 1994-95 as several new large fields come on stream.

But the recovery in oil production masks longer-term realities in the North Sea where oil is becoming harder to find and more difficult to produce.

"It would be a very big surprise to discover another Brent or Forties field now," says Mr Chris Fay, managing director of oil exploration and production at Shell UK, referring to the giant oilfields discovered in the 1970s. "It's like breaking a pane of glass: you pick up the big pieces first and then you get out the dustpan and brush and sweep up the shards."

Oil companies are having to become much more innovative and flexible in the way they exploit the small, dispersed oilfields they are now discovering. And Mr Fay's dustpan and brush represent the satellite installations which are set up to link in small accumulations of oil to a much larger, manned mother platform.

But although companies have intensified their efforts to find oil, cash restraints this year have curbed some exploration programmes. Exploration drilling hit a record last year when 171 wells were drilled in search of oil in the UK sector of the North Sea and the government confidently predicted that this hailed a new boom for the province. But by late August this year, exploration drilling had slipped behind last year's rate.

The decline in production this year, as a result of many companies' large maintenance programmes, curbed cash flow and meant that many had to cut their exploration and appraisal budgets. In addition, fierce storms swept the North Sea late in the year, forcing drilling activity to a halt.

By the end of November, companies had drilled 130 exploration wells compared with 152 last year, according to Mr Simon Roper at Arthur Andersen Petroleum Services.

"There is still a lot of interest in a few specific areas," he says, "but the difficulty this year has been an upset in production."

Oil output has been depressed this year as North Sea operators face a double burden of maintenance on their existing production platforms. These were built in the

A new boom was predicted. But by late August, exploration drilling was behind last year's rate

early 1970s and were designed to last about 15 to 20 years. That is how long most companies expected their fields to last. However, since then, new technology has improved oil extraction which means platforms must continue to operate, while many of them are literally wearing out.

"The harshness of the weather offshore is much greater than anyone had anticipated," Mr Fay says. "Corrosion has been a big problem, and although these platforms are in great shape, structurally, the working parts are wearing out."

In addition, in the wake of the Piper Alpha oil disaster in 1988 when a platform blew up, killing 167 people, companies are being forced to improve safety procedures and equipment in the North Sea. Many must install separate accommodation modules to provide a safe haven for workers in the event of a rig disaster.

The safety work culminates this year and next since companies must prepare a safety case for the Health and Safety Executive, laying out details of their safety measures and precautions. The government also requires all companies to install emergency shutdown valves – cited as crucial in the Cullen report on the Piper Alpha disaster – by early next year.

Shell's four platforms on the Brent field were shut for much longer than expected this year as the company completed a major overhaul. Analysts reckon Shell must spend some £1.2bn over the next seven years to maintain its North Sea infrastructure.

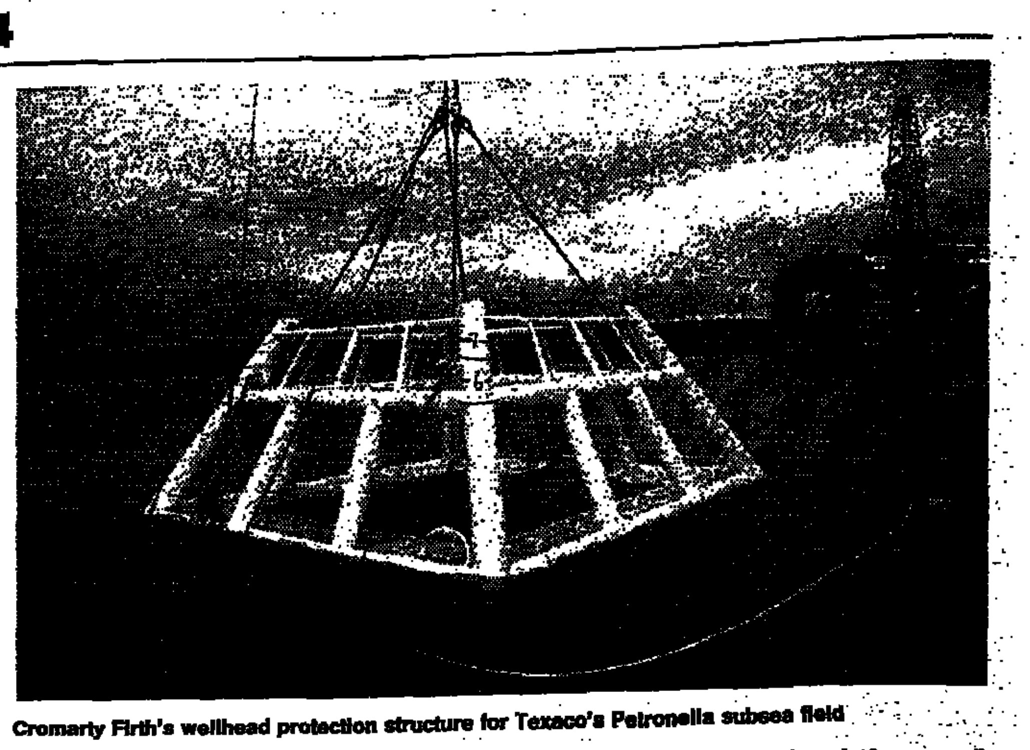
"We made the fundamental decision this year to start physically replacing things that were worn out instead of just maintaining them," Mr Fay explains.

Around 80 per cent of the men working in the Brent field are devoted to maintaining the equipment. But since saving money on maintenance is the key to lower operating costs, many companies are seeking to reduce manning levels.

With today's know-how, Mr Fay believes that almost the entire North Sea industry could be controlled from onshore if it were to be set up anew. Modern technology is making it possible to cut the workforce on existing smaller platforms while new satellite installations, which produce oil via a large platform, are fully automatic.

Shell plans to take the workers off two out of every three platforms in the southern sector of the North Sea in the next two to three years. "In 10 years, I can see the whole of the North Sea down to just a few manned platforms," Mr Fay says.

The move towards demanning platforms can also make severely depleted fields economic to run again, giving them an extra five to 10 years' life.



Cromarty Firth's wellhead protection structure for Texaco's Petronella subsea field

While many of the older fields in the North Sea are reaching maturity, smaller fields containing up to 100m barrels of oil – as opposed to over 1bn in the giant fields – are still being developed.

County NatWest, the Edinburgh oil brokerage group, estimates that 4.8bn barrels of oil have been discovered in dispersed fields across the North Sea which will probably result in the development of 52 new fields in the next three years. The group points out that these overall reserves are more heavily weighted towards gas than previously with 50 per cent believed to be gas.

If a small new field is discovered close to existing infrastructure, very small accumulations can be developed and linked into pipelines and a nearby platform. Mr Fay reckons that within five kilometres of an existing platform, an oil find as small as 20m barrels can be exploited by the use of subsea technology. The farther the distance, the more oil a field must contain if it is to be economic to develop in this way.

The future of the North Sea probably lies in these small, disparate finds as well as the development of new technology to squeeze the most out of existing fields.

Deborah Hargreaves

Tracy Corrigan *on reducing price volatility*

It's safer to hedge

THE VOLATILITY of oil prices, whipped up by the Gulf War, has finally convinced many oil consumers of the validity of hedging their exposure to oil prices.

Many companies have traditionally viewed derivative instruments as speculative, while bankers have argued the reverse position: that not to hedge exposure – to be totally at the mercy of changing oil prices – is actually the more speculative position.

The number, and range, of companies making use of derivative products to hedge exposure to the oil market has increased substantially.

"Most hedgers are transportation companies," says Mr Neil Bresolin, head of derivative sales at Phibro Energy. "But the profile is changing. Even companies whose fuel costs are not so large a part of their budget have realised they can avoid a nuisance factor."

Nearly all European airlines and a few US airlines now use the market. European airlines were led by British Airways and KLM, which both successfully used the market in the late 1980s. But US airlines have been held back by fears of worsening their competitive position. No single airline is keen to hedge prices while its competitors do not, in case the market moves in favour of unhedged competitors.

In the US, trucking fleets have become active in hedging exposure to diesel prices, while some European shipping companies also use the market.

But few industrial companies are active. For example, an industrial company which burns fuel oil to turn aluminium into widgets is far more likely to hedge exposure to aluminium than to oil.

Historically, most companies would budget according to economic forecasts.

"When companies set a budget for the next fiscal year, including forecast fuel costs, we can often sell them hedging below their budget level," says Mr Bresolin at Phibro Energy.

The growth of the market has also been assisted by the greater enthusiasm of US banks, among the main innovators in the market, which are now able to manage their risk on an open, rather than a matched basis, allowing them to increase the size of their books. Mr Brian Ford, head of risk management at Continental Bank, says they are now "allowed to hedge in a dynamic fashion, which has made pricing finer".

There are three main markets available for companies to hedge commodity prices: futures, swaps and options. The futures market offers standardised contracts listed on such exchanges as Nymex, the New York Mercantile Exchange, and the IPE, the London-based International Petroleum Exchange. Their greatest advantage is their liquidity; their greatest disadvantage is basis risk, which is the exposure to variance between similar, but not identical markets.

Basis risk is particularly high in the oil market, where there are many varieties of oil

Swaps have boosted – not undermined – the futures market

and only a few exchange-traded futures contracts. There is no contract in jet fuel, for example, so a proxy like gas oil is used. Jet fuel trades at about $25 a ton more than gas oil, with a high in early 1989 of around $50. During the Gulf crisis, that spread ballooned to an average of $65 and a high of $186. Airlines, banks and oil companies all suffered as a result, with one oil company believed to have lost $100m.

Most companies prefer to hedge exposure in the over-the-counter market, which can provide them with specially tailored products which suit their needs and do not require active day-to-day management. Banks and some oil companies, including BP and Shell, offer oil swaps which allow companies to offset their exposure, including basis risk. The banks then manage the risk they have assumed, largely in the futures market. Consequently, the growth of the oil swaps market has boosted, rather than undermined, the oil futures market.

Technology devised in the interest rate derivatives market is also being applied to commodity derivatives, for example options, swaptions, caps and floors.

"Commodity markets are ideal for caps and floors, because there are long periods of price stability interspersed with sharp price movement," says Mr John Coulter, head of commodity swaps at J.P. Morgan. There is a greater bias towards options than interest rate derivative markets. He estimates a 50-50 business mix between commodity options and swaps at J. P. Morgan. When companies hedge interest rate exposure, he says around 85 per cent of business is channelled through the swaps market and the rest through the options market.

There is also increasing use of range-forwards or participating forwards, so structured that there is no upfront premium, and exposure is limited to a range.

Meanwhile, the market in gas derivatives is still in its early stages. In the US, where it is most advanced, Nymex launched a natural gas contract in April 1990, which after a slow start is becoming increasingly actively traded, with average daily volume in November of 2,351 contracts.

But the number of potential users is smaller than in the oil market because of the "greater synergy between producer and consumer," says Mr Ford.

With gas, the greatest risk is location risk, because the method of transportation is through pipelines. There have been casualties, and dealers say the market has some growth potential.

The size of the OTC market in energy products is not easy to measure, since transactions are not recorded by a central body. Mr Ford, of Continental Bank, estimates that the global market grew from $3bn in 1988 to $15bn in 1990. He believes the market has doubled this year to around $30bn.

The global swaps market, dominated by interest rate and currency swaps, is thought by the International Swap Dealers Association to total around $3,000bn.

THE ENVIRONMENT

Risk of energy taxes

THE OIL industry has an impact on the environment at every stage of its operations – extraction, refining, offshore activities, transportation and sale at the pumps.

Globally, 680bn barrels of oil are burned each year, producing 40 per cent of the carbon dioxide which is emitted into the atmosphere through the burning of fossil fuels.

The industry faces mounting pressures for a reduction in the use of oil to combat global warming, the so-called greenhouse effect. Oil, coal and gas are the fossil fuels producing carbon dioxide which is the main greenhouse gas contributing to climate change.

Mr Jeremy Leggett, director of science for Greenpeace International, the environmental pressure group, says that the great oil companies have to face up to difficult ethical questions.

"Nobody – not even oil companies – will be able to do any serious business in a world falling apart as economies implode in the face of rapidly escalating global warming," he says.

There is now a big drive *towards energy conservation* in the industrialised countries. In June 1992 heads of state meet at the Earth Summit (the UN Conference on Environment and Development), in Rio de Janeiro to draw up an international convention on global warming.

In the US, California has already adopted severe restrictions on vehicle emissions. These require progressive use of electric cars and alternative fuels in order to reduce petrol consumption and help solve the severe smog problems that plague major cities in the state.

The European Community has the objective of stabilising emissions of carbon dioxide, the main greenhouse gas, by the year 2000. This will be achieved by energy saving and discouraging the consumption of fossil fuels.

The EC Commission is actively considering the possibility of a carbon tax on fossil fuels. That could put $10 on the price of a barrel of oil.

Europe's oil companies have pointed out the danger of Europe going it alone if the rest of the world does not take similar action. Such measures would have little effect unless the US, which burned 6bn barrels of oil in 1990 and is the world's biggest producer of carbon dioxide, participated.

The European Petroleum Industry Association (Europia) says higher taxes on energy use would have a wide range of economic and structural effects on the economies of EC member states including output, employment and prices.

"Any unilateral actions and measures by the Commission could jeopardise the competitiveness of European industry and have serious repercussions on national trade balances," it states.

Without wide international agreement on energy taxes, there would be a large risk than unilateral measures could force energy-intensive industries within the Community to close down, says the association. At the same time, energy-using industries outside the EC could raise production to satisfy demand and thus increase total global emissions of carbon dioxide.

Europia emphasises its "strongest reservations" about any new tax on oil. It believes that research should be pursued to reduce scientific uncertainty about climate change

"Unilateral actions by the Commission could jeopardise the competitiveness of European industry"

and to broaden the scope of possible policy responses to it.

The transportation of oil is a big environmental danger area. This was underlined by the Exxon Valdez disaster in 1989 when 267,000 barrels of oil were spilled off the coast of Alaska. However, according to the International Association of Independent Tanker Owners, total oil pollution was reduced from 1.5m tonnes in 1981 to 600,000 in 1989 and 45 per cent of this was connected with tanker operations.

International action has been taken to minimise oil spills at sea and to take swift and effective action should a spill occur. The International Maritime Organisation has agreed an international convention on oil preparedness, response and co-operation. Ships will be required to carry emergency plans for dealing with oil pollution accidents and national and regional plans will be drawn up. Countries will help their neighbours deal with oil spills by providing technical advice and equipment.

The North Sea and the English Channel are among the busiest in the world and tankers carrying 250,000 tonnes of crude oil are commonplace.

A report by the UK National Audit Office warned: "This volume of traffic and the increasing age of many tankers represents a significant risk of a major pollution incident occurring."

The Department of Transport strengthened aerial surveillance in these areas but there was difficulty in producing hard evidence of oil offences, particularly at night.

Double hulls are required on new tankers under the US Oil Spill Act of 1990 to minimise the risk of spills when a vessel is holed. But this has aroused considerable controversy. Mr Tormod Hafgard, managing director of the International Association of Independent Tanker Owners, says this requirement can be counter-productive and actually increase the risk of pollution.

The International Petroleum Industry Environmental Conservation Association has distributed its own guide to contingency planning for oil spills. The General Council of British Shipping, representing 120 companies, has published an environmental code which covers oil. The UK Offshore Operators Association has produced its own set of environmental guidelines.

The oil companies have their own detailed environmental programmes which operate with the backing of the chief executives and boards to ensure compliance and "green awareness" throughout their organisations.

Procedures are laid down to ensure protection of the environment over a wide range of operations – emissions from refineries, laying pipelines, the impact of new plant on surrounding areas, flaring of oil and the cuttings which spread on the seabed as a result of offshore drilling.

Conoco, a subsidiary of Du Pont, has announced a programme of nine environmental initiatives. These including reducing toxic air emissions and hazardous solid waste by one third by 1993. With Southampton University it has pioneered a method of cleaning oily water from drilling cuttings in its offshore operations.

Mr Constantine Nicandros, president of Conoco, recently warned that unless top management gives priority to the environment the initiative would pass to "green" pressure groups.

"This could lead eventually to a threat against the continued viability of our business and a threat to economic growth and improvement in the standards of living of the world's population," he said.

John Hunt

US gas industry

Continued from Page 3
industries ranked for timeliness.

Meanwhile, a national energy strategy is still evolving.

After a wide-ranging energy bill was derailed last month, several senators said they would press for legislation that would concentrate on conservation and the use of domestic resources, such as natural gas.

There is another glimmer of hope on the horizon for US gas producers. The industry may be an unintended beneficiary of the 1990 Clean Air Act. Under the terms of the act, US cities with the worst air quality must enact alternative fuel measures in the next decade.

According to Mr Driscoll, and many other observers, the two most significant opportunities for the industry are for increased use of natural gas at electric utilities to meet the acid rain provision of the Clean Air Act and higher use of natural gas as a clean burning fuel in vehicles.

The growing US environmental lobby tends to favour gas over coal and nuclear energy as a cleaner, cheaper source of energy. *But it will still be* up to the gas industry to stimulate demand.

Compressed natural gas is receiving more attention as an *alternative to petrol, as local* governments and businesses start looking at ways to comply with increasingly stringent regulations. In California, which is implementing some of the strictest clean air rules, car exhaust is held responsible for about half of the smog in the state's cities. From 1994, new cars must be only half as polluting as current models.

It is expensive to convert cars from gasoline to compressed gas, but the big auto makers are developing cars built to run on compressed gas. A more serious problem is the lack of facilities at US filling stations despite the need for these cars to be refuelled at relatively short intervals. Substituting compressed gas for petrol in vehicles will probably become a viable option in the future, but it is unlikely to be of much benefit to the industry in the short term.

For the next few years, Mr Driscoll expects cut-throat competition to continue, with a gas surplus continuing to depress average year-round prices. However, he expects tighter supply/demand relationships to develop in the winter months which will allow peak prices to move gradually *higher*.

"In the long term, the supply won't be there because people simply aren't drilling," he says.

Karen Zagor
New York

LONDON STOCK EXCHANGE

Share prices continue to drift lower

By Terry Byland, UK Stock Market Editor

DEEPENING gloom among building and store shares summed up the mood of the UK stock market yesterday. Share prices continued to drift lower across the broad range of equities as worries about the crisis in the domestic housing market and apparently sluggish pre-Christmas trading on Britain's high streets undermined hopes of an early recovery from the UK economic recession.

Trading volume, as measured by the Seaq electronic network, showed a marked increase but traders said that much of this reflected a host of tax-related deals; the early morning list of deals showed a number of repurchases of stock sold at the close of the previous session.

The FT-SE Index was in negative territory thoughout the trading session and would have suffered a more severe setback but for the firmness in the blue chip internationals which benefited from the steadier tone on Wall Street overnight. With the Dow only 7 points off early in the new session in New York, London tried to rally from its earlier fall of 14.4 on the Footsie scale.

However, with the institutions still largely absent from the UK market, the FT-SE Index ended 7.9 down at 2,432.9. Traders and chart specialists still see the FT-SE 2,400 mark as a very important benchmark. If this level is abandoned, the market is believed to be vulnerable to a heavy setback down towards the 2,300 area.

Seaq volume for the day totalled 569m shares, compared with only 358.7m on Monday when the stock market, like the rest of the City of London, was severely handicapped by problems with commuter rail networks.

More than 100m shares were traded across Seaq by 9.00am, twice the level for the same period on Monday and confirming the presence of the tax deal buyers. A large deal in shares of British Steel provided a feature of trading yesterday.

Hopes that Wall Street will be encouraged by an early cut in US interest rates brought gains in Glaxo and Reuters but there was not much activity behind modest gains in the other dollar stocks.

The building and construction sector, already battered this year by interest rate pressures, suffered a further blow on reports of alarming increases in the repossession of UK dwellings from mortgage payers unable to continue financing their loans. Nervousness was fuelled by reports that pressures are being brought to bear on Britain's building societies to convert some mortgage interest payments into rents. Some of the leading mortgage lenders were reported to be strongly critical of such plans.

Barclays de Zoete Wedd, one of the largest players in the sector, told clients last night that it saw no shares to recommend across the entire contracting sector. There were widespread falls in construction issues yesterday, with Mowlem particularly hard hit.

Store shares remained depressed by fears that pre-Christmas sales are sustained largely by heavy price discounting, which have cast a cloud over the rise in retail sales for November which was reported this week. The Central Statistical Office (CSO) warned that the November retail figures could have been inflated by as much as 50 per cent by factors connected with the method of compiling the data.

Account Dealing Dates		
*First Dealings:		
Dec 9	Dec 30	Jan 13
Option Declarations:		
Dec 23	Jan 9	Jan 23
Last Dealings:		
Dec 27	Jan 10	Jan 24
Account Day:		
Jan 6	Jan 20	Feb 3

*New-time dealings may take place from 8.30 am two business days earlier.

Heavy setback in Mowlem

A SUBSTANTIAL downgrading by Hoare Govett of its profits forecasts for John Mowlem, the contracting group, produced another steep decline in the shares, which retreated to their lowest level for more than five years. Hoare is Mowlem's broker.

Hoare's building team lowered its current year estimate from £15m to £10.5m and that for next year from £20m to £15m, blaming very weak scaffolding prices in the UK market for the cut in estimates.

Mowlem shares dropped like a stone, closing 19 off at the day's low of 157p; turnover came to 883,000 shares.

BZW also reduced its forecasts for Mowlem, shifting the 1991 number from £17.5m to £10m and that for 1992 from £16m to £8.5m. The broker described Mowlem as "particularly late cycle; this influences us much more than the strong balance sheet".

Glaxo wanted

Pharmaceuticals group Glaxo rose sharply to end the day as the best performer in the FT-SE 100 Index yesterday. The shares, firm in the morning, ran up quickly in the afternoon to close 19 ahead at 829p on turnover of 2.9m.

For once, the interest was not sparked by US investors. Marketmakers said the traditionally strong US interest had died away but one house was very active in the London traded options market and was trying to pick up shares to cover its position.

The shares also benefited from expectations that an article critical of one of Glaxo's principal competitors, Astra, would be published in the Swedish press.

Lasmo strikes

Lasmo's battle to win control of Ultramar reached fever pitch ahead of today's deadline for its takeover bid. The predator acquired 12.3m shares yesterday at 300p apiece via a series of agency crosses. The 300p price paid was roughly equivalent to the one-for-one share swap plus 40p cash deal.

The Lasmo move, carried out by S.G. Warburg Securities, brought the bidder's stake in Ultramar up to some 3.55 per cent and was interpreted by some market specialists as possibly tilting the finely balanced bid in Lasmo's favour.

As the deal was being struck there was some confusion as to the possibility of a counter-bidder being in the market. Ultramar shares moved up to 267p while the trades were being recorded, before closing a net 14 higher at 266p; turnover reached 29m. Lasmo dropped 23 to 255p.

Some dealers suggested the Lasmo move represented a failed market raid, but others said Lasmo's brokers had been offered the line of stock from an institution which previously had signalled its intention to reject the bid.

Mining and industrial group RTZ gave one of the poorest performances in the FT-SE Index, with the shares coming under strong selling pressure after reports of a substantial profits downgrade and news that the company's 49 per cent owned Australian associate CRA said it was cutting prices for iron ore sold to Japanese steel mills.

UBS Phillips & Drew was reported as having cut its 1992 profits forecast for RTZ by £50m to £370m. CRA said it was reducing its prices for various grades of iron ore by 4.9 to 6.36 per cent.

RTZ ended a net 14 down at 479p, after touching 476p. Turnover reached 2.3m shares.

Blue Circle (BCI), the cement and aggregates group, was one of the worst performers in generally depressed building materials/contracting sectors after one of the City's top agency brokers was said to have crossed a large line of stock in the market at a price well below the ruling market level.

The block of shares, believed to have been 3.1m, was crossed at 210p and was said to have been bought by one institution. BCI shares settled a net 13 lower at 212p, with turnover of 7.5m mostly accounted for by the agency cross.

Building materials and contracting shares were given a thorough shaking by marketmakers anxious to avoid taking on some very large lines of stock being touted around after a welter of profits and dividend downgrades by many of the leading broking houses.

Kleinwort Benson was said to have alerted its clients to the increasing possibility of wholesale dividend cuts in the sectors, while brokers such as Charterhouse Tilney, BZW, Credit Lyonnais Laing and Robert Fleming Securities were said to be reducing numbers across the board.

BZW, in its latest review of the construction sector, chopped profits estimates for Amec, Costain, Higgs and Hill, Laing, Mowlem and Wimpey, and said it saw "no pick-up in new work until 1994", and that it now has no buy recommendations among the UK contractors.

Among the individual stocks Taylor Woodrow fell 15 to 113p, easily its lowest level for more than five years, as one securities house was said to be attempting to find a home for a line of 6m shares. Some 4.2m shares were traded yesterday, indicating an overhang of stock.

A line of Costain was said to be on offer, with the stock price closing 5 weaker at 58p. George Wimpey dropped 10 to 122p, again the lowest for over five years.

News of the sale of its Kingsworthy Court office building to the Independent Television Commission for £2.39m cash boosted Conder to 27p before a close of 25p, a net gain of 2.

Money market moves by the US Federal Reserve, which appeared to rule out an immediate cut in US interest rates, came to late to affect underlying strength in internationally traded stocks. Reuters stood out, gaining 10 to 945p, and SmithKline Beecham rose 5 to 840p. ICI, Hanson and Grand Metropolitan all held up against a weak market.

Reckitt & Colman found a level after Monday's forecast cuts. The shares continued to slide in the morning but buyers came in to pull the stock back from a fall of 10 to a net gain of 6 at 619p.

More bad news about housing repossessions did nothing for BAT Industries. The shares fell 12 to 604p with a line of 1.2m dealt at 598p.

Commodities and property group Berisford International was 3 off at 18p, after falling to 16p at one stage.

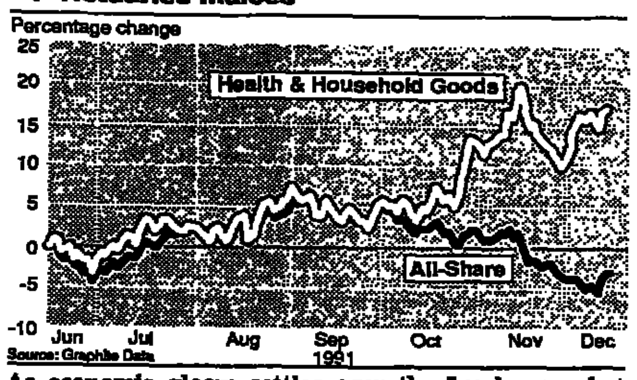
BOC picked up 7 to 590p, with one securities house said to have placed the company on its buy list.

Distribution, storage and engineering group Powell Duffryn rose 8 to 285p after announcing that a consortium it leads, Teesside Holdings Limited (THL), had made a successful £180m bid for the Tees and Hartlepool Port Authority, the first big port to be sold under UK privatisation plans.

MARKET REPORTERS:
Peter John,
Steve Thompson.

■ Other market statistics, including the FT-Actuaries Share Index and London Traded Options, Page 18.

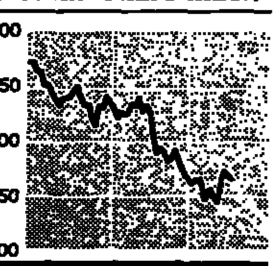
FT-Actuaries Indices



Source: Graphite Data

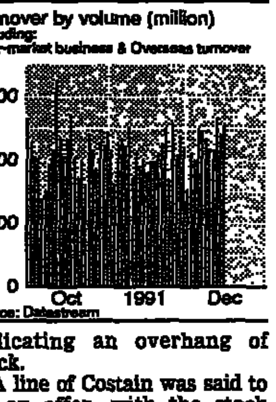
As economic gloom settles over the London market, investors have drifted into classic defensive areas, and the ever popular Health and Household sector has once again outstripped the FT-Actuaries All-share Index over the past three months. The gap has been widened by the continuing enthusiasm of US investors for a number of stocks, particularly Glaxo which, in spite of its high rating in London is still considered good value in New York. Also, several companies within the sector – Glaxo, SmithKline Beecham and Wellcome – have produced positive news and statements over recent weeks.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)
Excluding:
Intra-market business & Overseas turnover



Source: Datastream

NEW HIGHS AND LOWS FOR 1991

NEW HIGHS [illegible] ... NEW LOWS (72). [illegible] ... BRITISH FUNDS (1) Treas. 8½pc 2007 A, AMERICANS (2) Citicorp, Varity, CANADIANS (4) Breakwater Res., Canadian Pacific, Imperial Oil, Nova Corp of Alberta, BUSINESS SERVICES (1) Alpine Wrmts., BUILDING MATERIALS (1) Freeman Grp., CONTRACTING & CONSTRUCTION (6) Birse, Mowlem (J), Prowting, Taylor Woodrow, Wimpey (Geo.), ELECTRICALS (2) Ericsson (LM), Oxford Instrs., ELECTRONICS (2) Pressac, Sema, ENGINEERING AEROSPACE (1) Dowty, ENGINEERING GENERAL (3) [illegible] ... Venture Wrmts., Jove Inc., MEDIA (2) Clarke Hooper, MMI, MISCELLANEOUS (2) Dudley Jenkins, LGW, OIL & GAS (5) Bridge Oil, Calm Energy, Comeda Energy, Norsk Hydro, Santos, OTHER FINANCIAL (2) Gerrard & Natl., King & Shaxson, PACKAGING, PAPER & PRINTING (3) NMC, Repola, Waverley Cameron, PROPERTY (7) Aukett Assocs., Bredero Props., Hammerson A, Merivale Moore, Property Partnership, Shaftesbury, Wates City of London, STORES (4) Brown & Jackson, Clinton Cards, Colorvision, French Connection, TEXTILES (1) Lister, MINES (8) Anglo American, Buffels, Glencar Expln., Greenwich Res., Kenmare, Ovoca Gold, Plateau Mining, Renison, Sons of Gwalia, Stilfontein.

FINANCIAL TIMES STOCK INDICES

	Dec 17	Dec 16	Dec 13	Dec 12	Dec 11	Year Ago	1991 High	1991 Low	Since Compilation High	Since Compilation Low
Government Secs	87.22	87.34	87.38	87.05	86.97	83.74	87.94 (18/9)	82.17 (2/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	97.48	97.49	97.39	97.12	97.00	91.06	97.49 (16/12)	90.59 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share●	1846.2	1855.4	1863.9	1848.6	1809.4	1684.2	2108.3 (2/9)	1605.3 (15/1)	2108.3 (2/9/91)	49.4 (26/6/40)
Gold Mines	147.5	152.1	152.1	160.3	164.3	138.2	222.6 (11/7)	127.0 (22/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2432.9	2440.8	2451.8	2423.3	2380.2	2161.8	2679.6 (2/9)	2054.8 (16/1)	2679.6 (2/9/91)	986.9 (23/7/84)
FT-SE Eurotrack 200	1105.06	1105.57	1108.13	1091.45	1082.86	-	1198.60 (3/9)	938.62 (16/1)	1198.60 (3/9/91)	938.62 (16/1/91)
●Ord. Div. Yield	4.99	4.99	4.98	5.02	5.08	5.66				
●Earning Yld %(full)	7.50	7.50	7.43	7.49	7.61	11.81				
●P/E Ratio(Net)(c)	16.75	16.75	16.93	16.78	16.52	10.22				
SEAQ Bargains 4.45pm	21,911	21,054	27,824	22,819	20,681	23,605				
Equity Turnover(£m)†	-	742.29	958.56	1113.54	859.46	1096.25				
Equity Bargains†	-	20,886	25,924	22,235	20,828	23,963				
Shares Traded (mil)†	-	509.5	492.9	533.1	438.9	531.4				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, Basic 1000 FT-SE 100 31/12/83 & FT-SE Eurotrack 200 26/10/90.

Ordinary Share Index, Hourly changes — Day's High 1852.9 — Day's Low 1843.5

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1852.9	1849.8	1849.5	1845.5	1844.7	1846.8	1847.8	1846.6	1845.3

FT-SE 100, Hourly changes — Day's High 2436.4 — Day's Low 2426.3

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2436.4	2427.0	2431.5	2429.2	2429.5	2434.7	2434.1	2432.7	2430.8

FT-SE Eurotrack 200, Hourly changes — Day's High 1107.88 — Day's Low 1104.03

Open	10 am	11 am	12 pm	1 pm	2 pm	3 pm
1104.57	1105.13	1108.48	1108.49	1107.33	1108.80	1108.22

GILT EDGED ACTIVITY

Indices*	Dec 16	Dec 13
Gilt Edged Bargains	85.1	91.3
5-Day average	88.2	83.8

*SE Activity 1974. †Excluding intra-market business & Overseas turnover.

London report and latest Share Index: Tel. 0898 123001

TRADING VOLUME IN MAJOR STOCKS

[illegible]			

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

EQUITY FUTURES AND OPTIONS TRADING

DERIVATIVES markets continued to trade cautiously as underlying securities drifted towards the Christmas break. Volume in traded options remained low, with the total of 23,035 contracts below even the 24,093 recorded in the previous session.

Interest in the FT-SE option contract fell sharply, and only 4,055 contracts were recorded against 7,397 on Monday.

Among the individual share options, Midland headed the list of actives, with 1,958 contracts as bank stocks continued to trade nervously beneath the shadow of the loan problems at the leading houses. Glaxo (1,892 contracts), also attracted some attention on the back of the continuing US interest in the ADR stock.

The Euro FT-SE contract was also active (1,746) and Ultramar (1,142) traded busily ahead of the close today of the bid from Lasmo.

In the futures sector, the December FT-SE contract established a modest premium of about 8 points over the underlying market, but slipped back in after hours trading. Dealers said that the market had been fairly quiet, with the futures playing a subdued role in leading a stock market which is now lacking genuine investment support.

LONDON SHARE SERVICE

BRITISH FUNDS — BRITISH FUNDS - Cont. — BRITISH FUNDS - Cont. — OTHER FIXED INTEREST

[illegible]			

APPOINTMENTS

Mario steps up

Ernest Mario, chief executive of GLAXO, Europe's largest pharmaceuticals group, was yesterday appointed deputy chairman.

Although the chairman Sir Paul Girolami, who is 65, has no immediate plans to retire, according to the company – he has four years of his contract still to run – analysts say Mario's promotion is a positive step towards the number one position.

Mario, 58, will continue in his present role, according to the company, but will work closely with Sir Paul on long-term strategy.

Glaxo also announced that Jeremy Strachan, the group director for corporate affairs, has been appointed to the board. While being responsible for legal affairs, he will also oversee intellectual property matters and in particular Glaxo's vital battle to defend its patents on Zofran and Zantac, the world's best-selling drug.

■ Meanwhile, SMITHKLINE BEECHAM, the Anglo-American pharmaceuticals group, announced yesterday that Henry Wendt, its 57-year old chairman, will reduce by half his time with the company next year. Wendt says he will be looking after his other businesses; he has a winery in northern Californian.

He will continue to maintain offices in London and Philadelphia and to serve on the SmithKline Beecham's corporate executive committee and corporate business development committee.

■ John Edwards has been appointed finance director of RAM BATHROOMS and not of Spring Ram, as reported in the FT of December 17.

■ Following the move of Edward Duke from William Cook to become chief executive of BEAUFORD, David Bulmer has resigned as chairman and chief executive and Sir Trevor Holdsworth, chairman of National Power, inter alia, has been appointed non-executive chairman.

■ HIGGS & HILL announces that Sir Brian Hill becomes non-executive chairman and will retire at the end of 1992. John Theakston, joint md, becomes group chief executive. David Hill, formerly joint md, becomes md of the overseas construction division; he remains group deputy chairman.

■ John Clark has been appointed chief executive of Starmin (England); he moves from Ciment Français.

Non-executive directors

There are fresh signs that Sir Roland Smith, arguably Britain's busiest non-executive director, is starting to take life easier.

Having stepped down as chairman of British Aerospace a few months ago, the 63-year-old emeritus professor is now retiring from the board of BRAMMER, the industrial services group.

He has been a non-executive director since 1977, and Brammer says that earlier this year he indicated that he felt he should step down "in order to have more time for his other business interests".

Meanwhile, the 59-year-old Jon Foulds, a former chief executive of 3i and chairman of Brammer from 1988 and 1990, is also retiring after 11 years on the board.

John Beckwith, the co-founder of London & Edinburgh Trust, the property company, has stood down from his post as non-executive chairman of RUTLAND TRUST, the financial services group.

The job will be taken by Admiral Sir Raymond Lygo, who was chief executive of British Aerospace until late 1989.

Beckwith has resigned as chairman to spend more time on the international property interests of LET. He has continued to run the company, with his brother Peter, following its £500m agreed takeover by SPP, the Swedish group in April 1990. LET, which has half its portfolio overseas, is seeking investment and development opportunities in Europe, the Far East and the US.

SPP owns 35 per cent of Rutland Trust, which it acquired with LET. Rutland's profits fell in the year to June as a result of fewer opportunities in property finance and bids and deals.

Other appointments are:

■ Henry Knobil to WORTHINGTON. Knobil's career has been spent in the textile industry; after eight years with Marks and Spencer, he founded Textured Jersey in 1964 and sold it to Charterhall in 1989. He is a director of Strong & Fisher and and associate of the Central Trust Co.

■ Sir Gordon Jewkes to the HOGG Group. He has retired as consul-general and director-general of British trade and investment in the US. Sir John Greenborough is retiring.

■ Ian Inglis, a partner with Shepherd & Wedderbur, Edinburgh lawyers, and Andrew Irvine, senior partner of Jones Land Wootton, Edinburgh, to CLYDESDALE INVESTMENT TRUST.

■ Paul Holden, of Financière Indosuez, replaces William Kerr, who has resigned from Banque Indosuez, at WENTWORTH INTERNATIONAL.

■ Bob Morton retired from FAIRWAY (LONDON).

LONDON SHARE SERVICE

AMERICANS

	Notes	Price $	+ or -	1991 high	1991 low	Mkt Cap£m	Yld Gr's
Abbott Labs		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
♥Allegheny & W		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amdahl		727pxd	+2	10 1/8	667p	887.8	0.8
Amer Cyanamid		32	+7/8	42 1/8	25 3/4	2,904	2.6
Amer Express		19 1/8xd	-1/8	17 7/8	9 1/2	4,703	5.6
Amer T & T		28 3/4xd	-7/16	24 1/2	15 1/4	27,169	3.6
Ameritech		34 1/4	-1 1/8	38 7/8	32 1/2	14,985	5.8
BankAmerica		18 1/4xd	-9/32	26 3/16	12 3/16	3,967	3.7
Bankers NY		24 13/16xd	-5/16	38 9/16	20 3/16	2,849	7.9
Bell Atlantic		26 1/8xd	-1/8	30 1/2	24 1/4	10,274	5.4
BellSouth		26 7/8	-1/2	31 1/4	25	13,036	5.8
♥Bethlehem Steel		6 1/2xd	—	11 1/4	6 3/16	495.1	3.5
Bowater		1090p	+13	1639p	1046p	391.5	8.2
CPC		47 7/8xd	+1/4	54 13/16	37 13/16	3,618	2.3
California Engy		764p	—	998p	420p	138.1	—
Campbell Soup		42 7/16xd	-1/16	50	28 1/4	5,325	1.9
Chase Manhattan		8 3/4	+1/2	12 3/4	5 3/16	1,189	7.9
Chrysler		5 7/8xd	-7/16	9 3/16	5 1/2	1,084	5.7
Citicorp		5 1/4xd	-1/4	10 5/8	5 1/4	1,803	—
Colgate-Palm		24 13/16xd	-3/16	26 7/8	21 3/4	3,563	2.4
Cont'l Bank		475p	+6	929p	438p	488.8	7.1
Dana		14xd	-3/16	21 5/8	13 15/16	575.5	6.4
Data General		650p	+20	1282p	203p	294.5	—
Dial		22 5/8xd	-1/8	25 5/8	12 7/8	893.7	3.5
Dun & Brad		28 1/4	+3/8	29 5/8	20 3/4	5,043	4.3
Eaton		32 1/2	+3/8	40	24 1/4	1,186	3.8
Echlin		9 1/8xd	—	8 1/2	5 1/2	342.1	6.4
FPL		19 3/16xd	-3/16	20 1/8	14 7/16	3,252	7.0
Fluor		22 3/16xd	+13/16	30 9/16	17 7/16	1,788	1.0
Ford Motor		13 1/2xd	-5/8	23 1/4	13	6,390	4.2
Gen Elect		37 1/4xd	—	46 13/16	28 3/16	32,296	3.1
♥General Host		391p	—	696p	270p	—	5.1
Gillette		28 3/4xd	+1/4	45 3/4	20 7/8	5,849	1.3
Hasbro		20 3/8	—	20 7/8	794p	1,162	0.7
Honeywell		32 7/8xd	+1/4	38 1/2	21 3/4	2,314	2.8
Houston Inds		23 1/8	-3/8	23 1/2	17 7/8	2,981	7.2
IBM		47 5/8xd	-5/8	72 13/16	46 15/16	27,249	5.7
Ingersoll-Rand		26 1/8xd	+3/8	32 1/2	18 3/16	1,382	3.0
Lockheed		23 1/8xd	-1 1/32	28 1/8	16 5/8	1,464	4.9
Lowe's		1495p	-10	2165p	1245p	845.2	2.1
Man Hanover ♦		12 7/8xd	—	18 7/8	9 1/2	979.1	14.3
Merrill Lynch		28 7/16xd	-3/16	32 7/8	10 3/16	2,919	2.0
Morgan (JP)		34 5/8xd	+1/4	38 1/4	21 1/4	6,538	3.2
Morris (Philip)		39 1/4xd	+1/2	44 1/4	25 3/16	36,338	3.0
NYNEX		41 3/4	-1/2	46 3/4	39	8,437	6.1
♥Pac Agric		28 1/2p	—	65p	15p	—	—
Pall	h	19 1/4	+1/16	23 15/16	15 7/8	1,125	1.3
Pennzoil		30 1/8xd	-1/4	46 1/8	30 1/8	1,217	5.6
Quaker Oats		38 1/2xd	-1/8	46 1/2	24 7/8	2,944	2.5
Rockwell		14xd	-3/32	17 3/8	12 1/8	3,221	3.7
Rep NY		22 1/8xd	-1/8	27 13/16	16 1/2	1,151	2.5
Sears, Roebuck		19 1/4xd	-1/4	25 5/8	12 13/16	6,023	5.8
Sthwestern Bell		33 1/8xd	-1/8	34 1/2	25 5/8	9,932	4.8
Sun Co		14 13/16xd	—	20 3/4	14 3/16	1,584	6.9
Tenneco		16 1/8xd	-1	27 1/8	16 1/8	1,974	5.6
Texaco		32 1/8xd	+3/16	40 1/2	29 7/16	8,388	5.6
Texas Instr		15 1/4xd	-1/2	28 1/8	14 7/8	1,251	2.7
Time Warner		45 3/16xd	-1/16	64 1/2	37 7/8	4,297	1.2
TRINOVA		9 1/2xd	-1/4	16 3/8	8 3/16	268.1	4.0
♥Unitab		329p	—	339p	250p	472.8	—
Utd Tech		25 7/8xd	-5/8	29 3/8	22 3/8	3,147	3.9
♥Utilitech		66p	—	92p	42p	—	—
US West		19	-1/8	20	18 1/4	7,762	6.1
Varity		80p	-3	162p	69p	17.2	—
Waste Manage		21 1/2xd	+3/16	24 3/16	16 5/8	10,164	1.1
Whirlpool		1780p	-70	2348p	1053p	1,237	3.5
♥Woolworth		13 5/8	-3/8	20 3/16	13 1/2	1,777	4.5

CANADIANS

	Notes	Price £	+ or -	1991 high	1991 low	Mkt Cap£m	Yld Gr's
♥Abbot Energy		2p	—	11p	2p	—	—
Amer Barrick		1438p	-13	1477p	953p	2,021	0.3
Bk Montreal		20 3/8	+1/8	20 3/16	13	2,432	5.6
Bk Nova Scot		963pxd	+11	1030p	536p	1,976	5.5
♥BC Gas		791p	+5	862p	639p	—	4.1
BCE		22 3/8	-1/8	24	17 1/4	6,894	6.9
♥Brascan		805p	-40	10 1/2	647p	869.9	7.0
♥Breakwater		8 5/8p	-7/8	36p	8 5/8p	5.49	—

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING - AEROSPACE

ENGINEERING - GENERAL

ENGINEERING - GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HEALTH & HOUSEHOLD - Cont.

HOTELS & LEISURE

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	1991 High	1991 low	Yld Gr's	NAV	Dis or Pm(-)
Sphere Inc		19	—	33	15	27.2	22.0	16.0
Zero Div Pf		66¾	-½	69½	56¾	—	—	—
Warrants		3	—	9½	2¾	—	—	—
Strata		146	—	164	104	1.3	179.9	18.8
Stanton		147	—	169	120	1.7	178.1	10.5
TR City of Lon		111¼	-½	121¼	90	5.5	109.4	-1.9
TR Euro Growth	s	87	—	104	78	1.5	92.3	5.8
Ptg Sub	s	54	—	60	40	2.5	—	—
TR Far East Inc		79	—	94	56	7.1	90.6	12.8
Warrants		15	—	23	12	—	—	—
TR High Inc	H	103	—	115	85	7.8	94.6	-8.9
Sub	9	34	—	35	24	5.9	—	—
TR Pacific		67	-½	82	49	9.5	78.0	14.8
TR Prop		26xd	-½	37	26	7.4	35.3	25.0
TR Smaller		139	-1	165	86	3.5	144.9	3.4
TR Technology	M	36	—	62	20	0.8	90.7	60.3
Stepped Pf		89	—	94½	70½	8.2	—	—
Zero Pf		156½	+½	156½	117½	—	—	—
Temple Bar	T	257	-1	278	210	6.2	272.1	5.2
6pc 2002		£113½	+2	£113½	£102½	5.3	—	—
Temple Em Mkts	as	165	—	173	92	0.6	164.4	-1.0
Warrants		69	—	69	27	—	—	—
1pc Cv 2001		£162½	—	£167½	£90½	0.6	—	—
Thornton Asian		58	—	72	55	1.1	68.2	15.0
Warrants		10	—	18	9	—	—	—
Thornton Pan Euro		27	—	31	25	4.3	29.6	8.8
Warrants		5	—	18	5	—	—	—
Throg Dual Inc		98xd	—	109	93	11.6	—	—
Cap		348	—	360	280	—	634.9	45.2
Throgmorton		47	—	64	45½	6.1	65.8	28.4

MISCELLANEOUS - Cont.

OIL & GAS - Cont.

PACKAGING, PAPER & PRINTING - Cont.

STORES - Cont.

MINES - Cont.

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OTHER FINANCIAL

OTHER INDUSTRIAL MATERIALS

PACKAGING, PAPER & PRINTING

PROPERTY

STORES

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

GUIDE TO LONDON SHARE SERVICE

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1150 a year for each security shown, subject to the Editor's discretion

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 48p per minute peak and 36p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

AUTHORISED UNIT TRUSTS

Extra Yield	5 280.32	286.2	302.7	-4.2	7.33
(Accum Units)	5 757.39	773.5	818.0	-11.2	7.33
Far Eastern	5 177.35	177.9	190.4	-0.2	1.06
(Accum Units)	5 229.47	230.1	246.3	-0.3	1.06
Fund of Inv Tsts	5 370.85	370.9d	392.2	-0.9	3.17
(Accum Units)	5 654.36	654.4	692.0	-1.6	3.17
General (20-1)	5 42.63	42.70	45.20	-0.3	5.45
(Accum Units) (20-1)	5 105.45	105.5	111.6	-0.9	5.45
Gilt Income	5 58.41	58.50d	61.40	..	9.61
(Accum Units)	5 131.28	131.5	138.0	..	9.61
Gold	5 34.21	34.90	36.90	-0.5	2.17
(Accum Units)	5 39.25	40.10	42.40	-0.5	2.17
High Income (20-1)	5 18.39	18.40d	19.50	-0.2	7.17
(Accum Units) (20-1)	5 64.42	64.50	68.30	-0.4	7.17
Intl Growth (20-1)	5 50.53	50.60	53.50	+0.1	1.18
(Accum Units) (20-1)	5 86.14	86.20	91.10	+0.1	1.18
International Inc.	5 64.53	65.10	68.80	-0.1	6.34
(Accum Units)	5 84.38	85.20	90.00	-0.2	6.34

Cash Acc	0 112.75	112.75	112.75	+0.02	11.13
Europa	5¼ 96.81	96.81	103.7	+0.7	0.00
Genesis	5 92.65	92.65	99.49	+0.31	0.00

For Geoffrey Morley see Commercial Union

Murray Johnstone UT Mgmt (1000)H
7 West Nile St, Glasgow G2 2PX 0345 090 933

Acumen	5 66.92	67.20	71.72	-0.32	4.18
Acumen Reserve	3 66.68	66.68	68.67	+0.18	9.63
American Income	5 123.40	123.49	130.70	+0.10	3.64
Equity Income	5 75.38	75.38d	80.44	-0.08	6.17
European	5 49.83	49.83	53.14	+0.18	1.59
Far Eastern	5 102.98	103.00	109.90	+0.28	0.90
Smaller Cos	5 45.51	45.51d	48.56	-0.47	2.84
Olympiad	5¼ 43.99	43.99	46.94	-0.18	1.01
Olympiad Income	5¼ 41.22	41.22d	43.99	-0.07	6.26
UK Growth	5 70.50	71.25	76.05	-0.44	2.00

Guide to pricing of Authorised Unit Trusts
Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071 – 379 – 0444.

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 48p per minute peak and 36p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

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N & P Life Assurance Ltd
6-7 Bedford Row, London, WC1R 4UJ 071-430 2348

	Bid Price	Offer Price	+ or -	Yield Gross
Life Managed Fd	104.6	110.2	----	-
Pension Managed Fd	102.8	108.2	----	-
Life Deposit Fd	111.3	117.1	----	-
Pension Deposit Fd	118.2	124.5	----	-

For National Fin see Target Life

National Mutual Life
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	+ or -	Yield Gross
Harvester Pension Funds				
Managed	162.6	171.2	----	-
UK Equity	167.5	176.4	----	-
Overseas Equity	129.3	136.2	----	-
Fixed Interest	162.2	170.8	----	-
Property	129.2	136.0	----	-
Index Linked	151.6	159.6	----	-
Deposit	165.1	173.8	----	-
With Profits (B)	135.0	142.1	----	-

National Provident Institution
48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	+ or -	Yield Gross
Managed	341.9	359.9	-1.1	-
UK Equity	427.4	449.9	-2.9	-
Overseas Eq	323.9	341.0	+0.3	-
American	275.4	289.9	+1.6	-
Far East	344.4	362.6	-1.8	-
Property	194.0	204.3	+0.4	-
Fixed Int	274.1	288.6	-0.3	-
Indexed Gilt	161.1	169.6	-0.1	-
Deposit	188.8	198.8	+0.1	-
With Profit	105.7	111.3	----	-
Pension Fund (Accum Units)				
Managed	494.7	520.8	-1.8	-
UK Equity	579.5	610.0	-4.5	-
Overseas Eq	551.9	581.0	+0.9	-
American	354.3	373.0	+1.4	-
Far East	566.9	596.8	-1.6	-
Property	248.4	261.5	+0.6	-
Fixed Int	342.8	360.9	-0.5	-
Indexed Gilt	175.8	185.1	-0.1	-
Deposit	268.0	282.2	----	-
NPI Pensions Management Ltd				
Managed Fund	1071.5	1090.6	----	-

Prices December 2 Next dealing January 2

Norwich Union Asset Management Ltd
PO Box 140, Norwich NR3 1PP 0603 622200

	Bid Price	Offer Price	+ or -	Yield Gross
NUAM Funds				
Managed Fund	70.1	73.8	-0.6	-
Stock Market Mngd Fund	68.9	72.5	-0.5	-
Equity Fund	77.2	81.3	-1.1	-
International Fund	59.7	62.8	----	-
European Fund	60.5	63.6	+0.3	-
North American Fund	66.3	69.8	----	-
Pacific Fund	65.9	69.4	+0.1	-
Property Fund	77.8	81.9	----	-
Fixed Interest Fund	62.7	66.0	-0.1	-
Index linked Sec Fund	63.1	66.4	-0.1	-
Deposit Fund	72.4	76.3	----	-
NUAM Retirement Plans				
Mixed Fund	77.8	81.9	-0.3	-
UK Ordinary Share Fd	90.0	94.7	-0.7	-
International Fund	63.9	67.3	+0.3	-
Property Fund	84.0	88.5	+0.1	-
Fixed Interest Fund	77.2	81.2	----	-
Index Linked Sec Fund	67.4	70.9	----	-
Deposit Fund	86.9	91.5	----	-
NUAM (MF)				
Managed Fund	989.9	1042.0	-4.8	-
Equity Fund	2114.3	2225.6	-18.7	-
International Fund	158.0	166.4	+0.2	-
Property Fund	494.2	520.3	----	-
Fixed Interest Fund	470.9	495.7	-0.5	-
Index Linked Sec Fund	64.4	67.8	-0.1	-
Deposit Fund	298.6	314.4	+0.1	-

Norwich Union Life Insurance Soc.
Surrey Street, Norwich NR1 3NG 0603 622200

	Bid Price	Offer Price	+ or -	Yield Gross
Unitised Life				
With Profits Fd	118.06	124.28	+0.04	-
Managed Fd	96.79	101.88	-0.35	-
UK Ord Share Fd	101.55	106.9	-0.85	-
International Fd	87.25	91.84	+0.09	-
European Fd	82.33	86.66	+0.49	-
North American Fd	93.37	98.29	+0.07	-
Pacific Fd	78.32	82.44	+0.13	-
Property Fd	90.62	95.39	-0.13	-
Fixed Int Fd	110.89	116.73	+0.07	-
Intl Bond Fd	109.54	115.30	+0.18	-
Deposit Fd	117.12	123.28	+0.02	-
Unitised Pensions				
With Profits Fd	160.58	169.03	+0.05	-
Managed Fd	156.65	164.90	-0.49	-
UK Equity Fd	166.40	175.16	-1.21	-
International Fd	151.67	159.66	+0.70	-
European Fd	133.30	140.32	+0.80	-
North American Fd	156.45	164.69	+0.13	-
Pacific Fd	116.06	122.16	+0.19	-
Property Fd	152.81	160.85	+0.03	-
Fixed Int Fd	136.65	143.84	-0.02	-
Intl Bond Fd	138.51	145.80	+0.07	-
Bldg Soc Dep Fd	151.51	159.49	+0.05	-
Pensioneer* & Unit-Linked Plan*				
Mixed Fund	414.6	436.4	-6.3	-
Ordinary Share Fund	615.8	648.2	-10.6	-
International Fund	160.4	168.8	-4.8	-
Property Fund	258.9	272.5	+0.3	-
Fixed Interest Fund	382.7	402.8	+5.6	-
Index-Linked Sec Fund	190.5	200.5	+0.8	-
Deposit Fund	271.0	285.3	+0.6	-
Norwich Units Nov 15		1028.08	----	

*Prices as at December 10

Providence Capital Life Assc. Co Ltd
2 Bartley Way, Hook, Hants RG27 9XA 0256 768888

	Bid Price	Offer Price	+ or -	Yield Gross
UK Equity Acc	212.2	223.9	-1.2	-
UK Fixed Int Acc	194.0	204.7	-0.1	-
Intl Equities Acc	166.3	175.5	-0.2	-
UK Managed Acc	167.0	176.1	-0.5	-
Property Acc	224.2	236.5	----	-
Money Acc	134.4	141.8	----	-
Special Market Acc	139.0	146.7	-0.1	-
Japan Equity Acc	94.6	99.8	-0.5	-
North American Acc	94.4	99.6	-0.4	-
Pacific Acc	89.4	94.4	-0.1	-
Technology Acc	118.3	124.8	+0.6	-
Nat Resources Acc	52.8	55.7	-0.5	-
European Acc	93.8	99.0	+0.5	-
Residential Prop Acc	90.6	95.6	----	-
Swiss Equities Acc	31.1	32.9	----	-
Hong Kong Acc	67.3	71.0	----	-
UK High Inc Eq Acc	68.7	72.5	-0.5	-
Int Fixed Interest Acc	60.5	63.9	+0.2	-
Int Managed Acc	54.7	57.7	----	-
HIP Managed Acc	111.4	117.5	-0.1	-
HIP Managed II Acc	97.4	102.7	-0.1	-
HIP Managed III Acc	106.1	111.9	-0.2	-
Total Investment Bond				
UK Equity Initial		143.8	-0.7	-
UK Fixed Int Initial		131.7	----	-
Intl Equities Initial		112.1	-0.1	-
UK Managed Initial		113.3	-0.4	-
Property Initial		153.2	----	-
Money Initial		91.7	+0.1	-
Special Market Initial		107.5	-0.1	-
Japan Equity Initial		73.1	-0.4	-
North American Initial		73.0	-0.3	-
Pacific Initial		69.2	----	-
Technology Initial		91.4	+0.3	-
Nat Resources Initial		40.8	-0.4	-
European Initial		83.8	+0.3	-
Residential Prop Init		86.2	----	-
Swiss Equities Initial		29.7	----	-
Hong Kong Initial		64.0	----	-
UK High Inc Eq Init		65.4	-0.4	-
Int Fixed Interest Init		58.3	----	-
Int Managed Init		52.8	-0.1	-
HIP Managed Init		107.8	-0.2	-
HIP Managed II Initial		95.6	-0.1	-
HIP Managed III Init		105.3	-0.2	-
Broker Funds				
High Performance	71.6	75.5	+0.2	-
Towerhill Mngd Fd Acc	40.9	43.1	-0.8	-
YRA Executive Fd	98.0	103.3	----	-
£ Global Growth Acc	122.1	128.7	-0.2	-

OFFSHORE AND OVERSEAS

OFFSHORE INSURANCES

MANAGEMENT SERVICES

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)

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	Bid Price	Offer Price	+ or -	Yield Gross
Baring International Fd Mngrs (Ireland) Ltd				
Australia	$26.35	27.17	-0.09	1.05
Japan Tech	$57.37	60.24	-0.05	-
Japan Fund	$24.44	25.67	-0.12	0.17
Japan New Gnrtn Fd	$18.30	19.22	+0.06	-
Malay Sing	$56.42	58.20	+0.20	0.31
Nth American	$22.33	23.45	+0.10	0.58
Octopus Fund	$21.78	22.87	-0.02	0.08
Pacific Fd	$61.04	64.10	+0.22	-
International Bond	$17.32	18.19	+0.02	6.89
Europa Fund	$13.31	13.98	+0.04	-
British Screen Fd	£0.86	0.91	.....	-
Tristar Warrant	$11.07	11.63	+0.05	-
Hong Kong	$51.42	54.00	+0.24	3.09
Mngd Portfolio (Stlg)	£3.93	4.24	-0.03	-
Mngd Portfolio (Dllr)	$10.23	10.80	+0.03	-
Currency Fd-Sterling	£19.79		.....	-
Currency Fd-US Dollar	$15.51		+0.01	-
Curr Fd-Deutschemark	DM41.05		+0.01	-
Curr Fd-Managed $	$45.94	48.23	+0.05	-
Federated International Funds Plc				
Federated Short-term US Gov't Securities Fund				
Institutional Serv Series*	$1.00		---	4.30
Investment Series*	$1.00		---	4.21

* Annualised Yield

ISLE OF MAN (SIB RECOGNISED)

Allied Dunbar Intl Fund Mgrs (1600)F

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
TSB Trust Funds—Contd.						
UK Equity	5	139.56	139.56	148.29	+0.24	0.92
International Equity	5	110.85	110.85	117.93	-0.05	0.00
Far Eastern	5	86.59	86.59	92.07	+0.34	0.00
European	5	77.18	77.18	81.63	+0.02	0.00
Pan American	5	152.30	152.30	161.44	-3.16	0.00
TSB Gilt Fund Ltd						
Quarterly Share	3	99.20	99.20	102.51	-0.04	10.05
Monthly Share	3	97.03	97.03	100.25	-0.04	10.27

JERSEY (REGULATED)(**)

	Bid Price	Offer Price	+ or -	Yield Gross
Barclays Intl Funds				
Currency Funds				
Sterling	£21.53		-0.01	9.5
US Dollar	$31.56		+0.01	3.5
Deutschemark	DM55.71		+0.01	8.0
Yen	Y4,069		+0.001	5.1
Managed Multicurrency	£13.05	13.52	-0.01	-
Managed Multicurrency	$25.33	26.23	.....	-
Bond Funds				
Sterling Bond	£0.411	0.427	---	10.6
US Government Income	$99.60	103.14	+0.06	6.7
Asian Selection Funds				
Hong Kong	$13.112	13.802	+0.105	3.0
Indonesia	$7.733	8.140	+0.031	2.5
Korea	$9.640	10.147	+0.001	2.5
Malaysia	$9.728	10.240	-0.052	0.5
Philippines	$10.786	11.354	-0.008	2.5

Abtrust Fund Mngrs Luxembourg SA (a)

Aetna Intl Umbrella Fund (a)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar recovers on Fed move

THE DOLLAR finished unchanged on the day but above its lows after the Federal Reserve surprised the market by draining liquidity from the credit system, which some operators interpreted as a signal that there will not be an early cut in American interest rates.

The key overnight money rate - Federal funds - had been trading below the Federal Reserve's presumed target of 4½ per cent. But thoughts of an immediate lowering of interest rates appeared to be ruled out after it drained funds by overnight matched sale purchase agreements.

The Fed's move attracted several large buyers into the market and with many operators short of dollars, a squeeze developed and forced the US unit up to DM1.5780, from DM1.5650 earlier and DM1.5785 at the previous close. The dollar was higher against the yen at Y128.60 from Y128.45.

Many dealers still believe, however, that a cut in the discount rate is likely later this week. Earlier in the day White House spokesman Mr Marlin Fitzwater said "from a practical standpoint the recession does continue".

This followed a modest drop in housing starts in November which underlined most economists' belief that after the brief respite during the summer, the US economy has fallen back into recession.

Further evidence of the policy makers' concern at the weakness of the economy came in a US newspaper report. According to the report, Mr Alan Greenspan, Federal Reserve chairman, now believed tax cuts and increased government spending were necessary to revive confidence. In the past, Mr Greenspan has opposed "pump priming," the report said.

Aside from the dollar's late recovery, the markets were stuck in quiet pre-holiday trading for much of the day. "It's probably going to be like this all the way up to Christmas," said Mr David Cocker at Chemical Bank in London.

Sterling was helped by the dollar's late burst of strength. Earlier in the day, the pound had drifted lower to DM2.8680 from an opening DM2.7830 as worries that the UK economy was following the US back into recession undermined sentiment.

Analysts noted that the market was also beginning to worry about the political standing of the government, while remarks by Mr Norman Lamont, the chancellor, ruling out a devaluation were beginning to wear off.

Sterling closed lower at DM2.8725 from DM2.8750 and at $1.8215 from $1.8205. Sterling also remained at the bottom of the ERM, with the French franc, which is second from bottom, 0.87 per cent above it, compared with 0.51 per cent at the previous close.

Within the ERM, the mark was firmer on short-covering before the Bundesbank council meeting tomorrow. The market is still uncertain whether the Bundesbank will raise interest rates - some still expect a ¼ point rise to 9.5 per cent.

£ IN NEW YORK

Dec.17	Latest	Previous Close
£ Spot	1.8200-1.8210	1.8245-1.8255
1 month	1.00-0.98pm	1.00-0.98pm
3 months	2.75-2.72pm	2.70-2.67pm
12 months	9.85-9.75pm	9.70-9.60pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Dec.17	Previous
8.30 am	91.5	91.5
9.00 am	91.5	91.6
10.00 am	91.5	91.6
11.00 am	91.4	91.6
Noon	91.4	91.6
1.00 pm	91.4	91.6
2.00 pm	91.4	91.6
3.00 pm	91.4	91.6
4.00 pm	91.4	91.5

CURRENCY MOVEMENTS

Dec 17	Bank of England Index	Morgan** Guaranty Changes %
Sterling	91.4	-20.3
U.S Dollar	62.1	-16.9
Canadian Dollar	103.8	+2.0
Austrian Schilling	110.4	+12.3
Belgian Franc	112.3	-1.5
Danish Krone	109.3	+3.2
D-Mark	119.6	+25.6
Swiss Franc	109.9	+18.1
Dutch Guilder	115.1	+16.7
French Franc	103.6	-12.7
Lira	99.1	-19.8
Yen	140.1	+75.1

Morgan Guaranty changes: average 1980-1982=100 Bank of England Index (Base Average 1985=100) **Rates are for Dec.16

CURRENCY RATES

Dec 17	Bank § rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.769923	0.710863
U S Dollar	4.50	1.40203	1.29654
Canadian $	7.52	1.60308	1.48286
Austrian Sch	7.50	15.6088	14.3475
Belgian Franc	8.00	45.6361	41.9756
Danish Krone	9.50	8.61898	7.92836
D-Mark	7.50	2.21689	2.03856
Dutch Guilder	8.00	2.49814	2.29721
French Franc	10¼	7.57667	6.96503
[illegible]	[illegible]	[illegible]	[illegible]

§ Bank rate refers to central bank discount rates. These are not quoted by the UK, Spain and Ireland. † European Commission Calculations. * All SDR rates are for Dec.16

OTHER CURRENCIES

[illegible]

*Official rate. Floating rate 6.2578.0 5.1423.0

FINANCIAL FUTURES AND OPTIONS

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Dec 17	% Change from Central Rate	% Spread v Weakest Currency	Divergence Indicator
Spanish Peseta	133.631	129.905	-2.79	4.93	48
D-Mark	2.05586	2.03855	-0.84	2.87	48
Dutch Guilder	2.31643	2.29721	-0.83	2.86	37
Belgian Franc	42.4032	41.9756	-1.01	3.04	45
Irish Punt	0.767417	0.764742	-0.35	2.35	30
Italian Lira	1538.24	1539.97	0.11	1.89	-3
French Franc	6.89509	6.96503	1.01	0.98	-30
Danish Krone	7.84195	7.92836	1.10	0.89	-26
Sterling	0.696904	0.710863	2.00	0.00	-39

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

[illegible]

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

BASE LENDING RATES

	%		%		%
[illegible]		[illegible]		[illegible]	
Bank of Scotland	10.5	Girobank	10.5	Standard Chartered	10.5
Banque Belge Ltd	10.5	● Guinness Mahon	10.5	TSB	10.5
Barclays Bank	10.5	● Hambros Bank	10.5	Unibank plc	10.5
Benchmark Bank	11	Hampshire Trust Plc	13.5	● United Bk of Kuwait	10.5
Brit Bk of Mid East	10.5	Heritable & Gen Inv Bnk	10.5	Unity Trust Bank Plc	10.5
● Brown Shipley	10.5	● Hill Samuel	10.5	Western Trust	10.5
CL Bank Nederland	10.5	C. Hoare & Co.	10.5	Westpac Bank Corp.	10.5
Citibank NA	10.5	Hongkong & Shanghai	10.5	Whiteaway Laidlaw	10.5
City Merchants Bank	10.5	Jullan Hodge Bank	10.5	Yorkshire Bank	10.5
Clydesdale Bank	10.5	● Leopold Joseph & Sons	10.5		
Co-operative Bank	10.5	Lloyds Bank	10.5		
Coutts & Co	10.5	Meghraj Bank Ltd	10.5		

● Members of British Merchant Banking & Securities Houses Association.

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

	Gross	Net	CAR	Int Cr
£2,500-£19,999	9.25	6.94	9.65	Mth
£20,000-£49,999	9.50	7.13	9.92	Mth
£50,000-£99,999	9.75	7.31	10.20	Mth
£100,000+	10.00	7.50	10.47	Mth
$5,000-$49,999	3.00	2.25	3.04	Mth
$50,000-$99,999	3.50	2.63	3.56	Mth
$100,000-$199,999	3.75	2.81	3.82	Mth
$200,000+	4.00	3.00	4.07	Mth

Many other currencies are available - for rates please phone ext Z168

Clydesdale Bank PLC
30 St Vincent Place, Glasgow G1 2HL 041 248 7070

	Gross	Net	CAR	Int Cr
£2,000-£24,999	8.25	6.19	8.51	Qtr
£25,000-£99,999	9.00	6.75	9.31	Qtr
£100,000+	9.50	7.13	9.84	Qtr

The Moneycentre, Plymouth PL1 1SE 0752 224141

	Gross	Net	CAR	Int Cr
£15,000+	10.00	7.50	10.38	Qtr
£5,000-£14,999	9.75	7.31	10.11	Qtr
£1,000-£4,999	9.50	7.13	9.84	Qtr

Wimbledon & South West Finance PLC
114 Newgate St, London EC1 7AE 071-606 9485

	Gross	Net	CAR	Int Cr
High Int Cheque Acc	10.60	7.95	11.03	Qtr

NOTES - Gross: Contractual rate of interest payable, not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. 'Compounded Annual Rate'. Int Cr: Frequency at which interest is credited to the account.

MONEY MARKETS

UK rates firm

UK MONEY rates were firmer yesterday as sterling weakened against the D-Mark as the money markets prepared for the Bundesbank council meeting tomorrow.

The key three months interbank rate closed at 10¾-⅝ per cent from 10⅝-⅝ per cent in the previous session; six months money was at 10⅝-½ per cent from 10½-⅜ per cent; and one year money was up ⅛ at 10⅝.

The markets were continuing to respond to the recent Confederation of British Industry survey which saw no early recovery in 1992 and the figures released the previous day for manufacturing output in October that indicated the economy had moved back into recession.

Sterling was helped late in the day by a modest recovery in the US dollar but sentiment in the interest rate market remained depressed. Sterling's effective exchange rate index finished down 0.1 at 91.4, while inside the ERM it was still at the bottom.

The March short sterling contract fell 5 basis points to 89.78, which suggests futures dealers expect no cut in interest rates before the end of the first quarter of next year.

At the very short end of the money market, overnight money rates were firm as technical end of year factors drained liquidity. A large money market shortage was forecast by the Bank of England again yesterday.

The £800m liquidity short-fall was accounted for by the Bank buying back of Treasury bills and the unwinding of late assistance.

US money rates were firmer as the markets continued to discount a cut in the discount rate this week. But the Federal Reserve's unexpected move to drain liquidity from the credit system, caused overnight rates for firm slightly.

The March Eurodollar contract in London finished at 95.68, up 5 points in the day. But in Chicago, Eurodollars fell back slightly after the Fed drained liquidity.

Federal funds were trading at 4⅜ per cent at the time of the Fed's move, down slightly on the day and below it's presumed 4½ per cent target.

In Germany money market rates were firm as December tax payments began to absorb liquidity from the banking system. Money dealers said they expected the drain on funds to continue to build up this week.

Call money was quoted at 9.00-9.10 per cent, unchanged on the day, although bids reached 9.05 per cent.

UK clearing bank base lending rate 10.5 per cent from September 4, 1991

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

Cardiff Automobile Receivables Securitisation (UK) plc

£328 million Floating Rate Notes Due 1995

In accordance with the provisions of the Notes, notice is hereby given that on the next interest payment date, being 27th December, 1991, there are no available Redemption Funds. Hence, no Notes will be redeemed on that date. The principal value of the Notes outstanding will therefore remain at £322,640,000.

Chartered WestLB Limited
Agent Bank

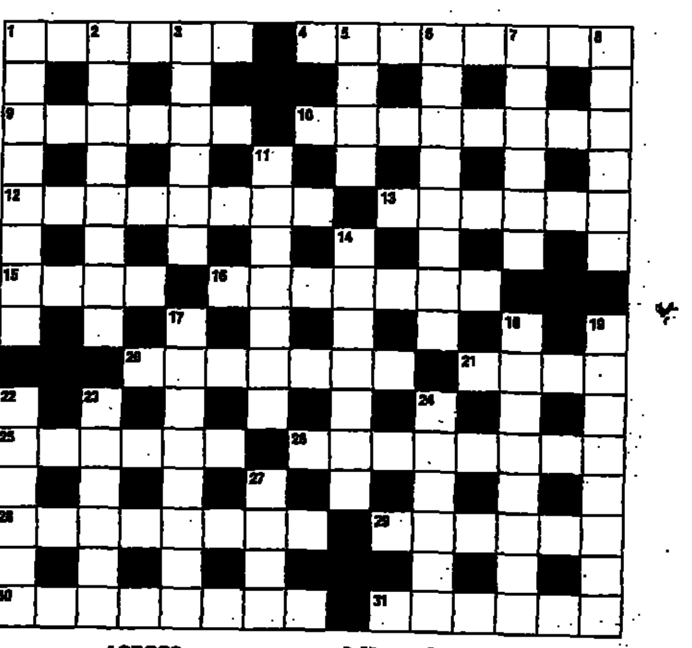
Correction Notice
STATE BANK OF SOUTH AUSTRALIA
Yen 1,000,000,000
Guaranteed Floating Rate Notes due 1994
unconditionally guaranteed by
The Treasurer of the State of South Australia

Interest Period	28th November, 1991 to 28th May, 1992
Interest Rate	7.4% per annum
Interest Payment due 28th May, 1992 per Yen 100,000,000 Note	Yen 3,661,391

The Nippon Credit Bank, Ltd., Tokyo
Agent Bank
18th December, 1991

CROSSWORD

No.7,727 Set by GRIFFIN



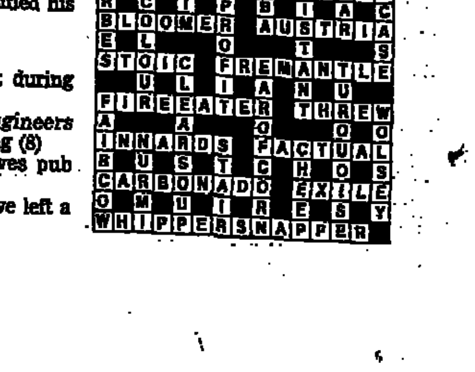
ACROSS

1 Tax on street water supplier (6)
4 Stroke a girl's back during loving (8)
9 Leaving tip causes insult (6)
10 Locked in here, you'll come clean! (8)
12 Trace metal cruet crossly (8)
13 They settle in Belgium (6)
15 Dropping one round backed moron's rule (4)
16 30 seconds to take char round class (7)
20 Old boy likes changing needle (7)
21 She found army unsettling ... (4)
25 ... in that soldiers are a menace (6)
26 Once your mate's lost about a stone ... (8)
28 ... rub out "I queued in shop"(8)
29 Lure learner away in Hill's car (6)
30 Risk throwing grenade round back garden (8)
31 Japanese escort falsified his age (6)

DOWN

1 Confess, caught out during boys' activity (8)
2 Sugar factory engineers with elegant clothing (8)
3 Native student leaves pub late (6)
5 Returning around five left a round shape (4)
6 Heavenly present, and other things, brought round (8)
7 Doctor inserted relative quantity (6)
8 Enquire after bananas turned colour (6)
11 Quickly taking cheese, run off (7)
14 Attractive gamblers may (7)
17 Chafing by mid-day underwear is no different (8)
18 Has about fifty three-feet ropes (8)
19 Why topless satire brought about frenzied laughing (8)
22 Clubs backing the local firm (6)
23 Earth reduced to fine particles (6)
24 Fought against entering new store (6)
27 Reduce by a quarter, being clever (4)

Solution to Puzzle No.7,726



WORLD STOCK MARKETS

AUSTRIA | FRANCE (continued) | GERMANY (continued) | NETHERLANDS | SWEDEN (continued) | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | SWITZERLAND | NORWAY | SPAIN | ITALY | GERMANY | SOUTH AFRICA | SWEDEN | JAPAN | AUSTRALIA | HONG KONG | MALAYSIA | SINGAPORE

Price data supplied by Telekurs.

CANADA

TORONTO

2:00 pm prices December 17

MONTREAL

2:00 pm prices December 17

Total Sales 10,958,300 shares

INDICES

NEW YORK

DOW JONES	Dec 16	Dec 13	Dec 12	Dec 11	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Industrials	2919.05	2914.36	2895.13	2865.38	3077.15 (18/10)	2470.30 (9/1)	3077.15 (18/10/91)	41.22 (2/7/32)
Home Bonds	97.90	97.81	97.73	97.69	97.92 (12/11)	91.30 (16/1)	97.92 (12/11/91)	54.99 (1/10/81)
Transport	1220.48	1218.80	1199.74	1160.50	1287.56 (18/10)	894.30 (7/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	215.07	217.70	219.29	219.27	221.64 (2/12)	195.17 (10/7)	236.23 (2/1/90)	10.50 (8/4/32)

Day's High 2946.33 (2936.72) Low 2900.49 (2893.34)

STANDARD AND POOR'S

	Dec 16	Dec 13	Dec 12	Dec 11	1991 HIGH	1991 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	384.46	384.47	381.55	377.70	397.41 (13/11)	311.49 (9/1)	397.41 (13/11/91)	4.40 (1/6/32)
Industrials	453.55	452.77	446.80	444.53	472.01 (29/8)	364.90 (9/1)	472.01 (29/8/91)	3.62 (21/6/32)
Financial	30.71	30.83	30.60	30.10	32.54 (13/11)	21.96 (9/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	212.08	211.90	210.44	208.53	219.37 (13/11)	170.97 (9/1)	219.37 (13/11/91)	4.46 (25/4/42)
Amex Mkt. Value	370.45	369.48	366.13	366.48	392.37 (12/11)	296.72 (14/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	543.73	540.90	536.07	531.64	556.17 (13/11)	355.75 (14/1)	556.17 (13/11/91)	54.87 (31/10/72)

	Dec 13	Dec 6	Nov 29	year ago (approx.)
Dow Industrial Div. Yield	3.14	3.17	3.15	3.97

	Dec 11	Dec 4	Nov 27	year ago (approx.)
S & P Industrial div. yield	3.22	2.80	2.82	3.31
S & P Indl. P/E ratio	21.05	22.98	22.78	15.89

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
Philip Morris	2,260,300	71½	+ ⅜
RJR Nabisco	1,895,000	10½	-
Amer Express	1,873,700	18½	- ¼
Glaxo	1,723,700	30	+ ¼
Union Carbide	1,554,400	19¼	+ 2⅞
Chicorp	1,524,500	9⅝	- ⅛
Gen Motors	1,520,800	28½	....
BankAmerica	1,463,600	33¼	- 1⅛
USX-Marathon	1,306,500	22⅞	+ ⅛
IBM	1,291,300	87	- 1

TRADING ACTIVITY

† Volume (Millions)	Dec 16	Dec 13	Dec 12
New York SE	173.010	194.470	192.930
Amex	15.696	18.030	13.568
NASDAQ	148.401	178.703	168.068
NYSE			
Issues Traded	2,190	2,183	2,163
Rises	990	1,092	1,028
Falls	692	555	594
Unchanged	508	536	541
New Highs	73	74	49
New Lows	38	30	56

CANADA

TORONTO	Dec 16	Dec 13	Dec 12	Dec 11	1991 HIGH	1991 LOW
Metals & Minerals	2724.79	2768.41	2760.23	2752.01	3299.99 (18/7)	2632.06 (9/1)
Composite	3346.16	3359.47	3348.42	3351.92	3604.09 (12/11)	3161.95 (15/1)
MONTREAL Portfolio	1777.45	1779.00	1773.57	1776.29	1907.35 (12/11)	1686.89 (9/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Dec 17	Dec 16	Dec 13	Dec 12	1991 HIGH	1991 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1579.8	1605.2	1598.0	1591.9	1696.3 (2/11)	1204.5 (16/1)
All Mining (1/1/80)	638.7	637.2	633.5	632.9	707.2 (24/7)	561.6 (16/1)
AUSTRIA						
Credit Aktien (30/12/84)	385.99	383.37	381.95	379.16	534.81 (16/4)	379.16 (12/12)
BELGIUM						
BEL20 (1/1/91)	1076.05	1076.61	1081.62	1066.60	1212.15 (17/4)	917.59 (17/1)
DENMARK						
Copenhagen SE (3/1/83)	348.71	348.17	348.34	347.46	380.04 (2/8)	302.26 (8/1)
FINLAND						
HEX General (28/12/90)	768.9	774.4	776.7	779.1	1186.9 (8/4)	768.9 (17/12)
FRANCE						
CAC General (31/12/82)	465.02	464.45	464.01	453.07	503.51 (15/11)	394.88 (15/1)
CAC 40 (31/12/87)	1711.73	1696.80	1688.27	1671.62	1887.29 (1/10)	1425.26 (15/1)
GERMANY						
FAZ Aktien (31/12/58)	633.34	632.08	633.72	629.45	717.43 (17/6)	570.48 (15/1)
Commerzbank (1/12/53)	1786.1	1782.9	1789.9	1778.2	2035.2 (31/5)	1612.5 (15/1)
DAX (30/12/87)	1560.93	1552.89	1558.34	1546.39	1715.80 (11/6)	1311.82 (16/1)
HONG KONG						
Hang Seng Bank (31/7/64)	4185.03	4171.66	4155.48	4096.00	4271.34 (15/11)	2984.01 (16/1)
IRELAND						
ISEQ Overall (4/1/88)	1386.81	1381.07	1381.95	1354.52	1520.65 (15/3)	1114.86 (25/1)
ITALY						
Banca Com. Ital. (1972)	505.33	499.96	492.75	489.75	619.38 (3/6)	482.89 (10/12)
JAPAN						
Nikkei (16/5/49)	22736.29	22836.67	22754.90	21712.57	27146.91 (18/3)	21456.76 (19/8)
Tokyo SE (Topix) (4/1/68)	1718.78	1728.18	1726.15	1683.04	2028.85 (18/3)	1625.00 (17/1)
2nd Section (4/1/68)	2513.72	2510.66	2503.14	2481.29	3427.45 (10/5)	2466.62 (11/12)
MALAYSIA						
KLSE Composite (4/4/86)	543.30	542.65	537.85	532.69	635.02 (29/5)	470.41 (16/1)
NETHERLANDS						
CBS Tt Rtn Gen.(End 1983)	273.0	272.9	272.4	268.8	284.8 (5/6)	221.4 (16/1)
CBS All Shr (End 1983)	191.7	191.7	191.3	188.8	203.1 (5/6)	162.3 (16/1)
NORWAY						
Oslo SE (Ind) (2/1/83)	655.03	657.49	662.48	653.73	793.53 (26/8)	595.77 (2/12)
PHILIPPINES						
Manila Comp (2/1/85)	1111.31	1113.08	1126.10	1125.77	1183.40 (29/5)	582.64 (10/1)
SINGAPORE						
SES All-Singapore (2/4/75)	395.78	396.25	392.07	387.66	422.43 (26/4)	315.07 (16/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1198.0	(c)	1194.0	1232.0	1469.0 (5/7)	971.0 (25/2)
JSE Industrial (28/9/78)	4135.0	(c)	4148.0	4153.0	4364.0 (13/11)	2829.0 (16/1)
SOUTH KOREA						
Korea Comp Ex. (4/1/80)	623.40	630.45	653.40	653.40	763.10 (6/8)	590.57 (22/6)
SPAIN						
Madrid SE (30/12/85)	236.67	237.69	240.24	238.97	289.22 (18/3)	213.70 (14/1)
SWEDEN						
Affärsvärlden Gen. (1/2/37)	892.9	892.7	906.9	902.5	1149.8 (11/7)	808.4 (8/1)
SWITZERLAND						
Swiss Bank Ind (31/12/58)	719.2	717.9	716.7	711.0	769.3 (14/11)	590.4 (14/1)
SBC General (1/4/87)	583.8	583.2	582.0	578.2	638.0 (31/5)	487.1 (14/1)
TAIWAN						
Weighted Price (30/6/66)	4400.30	4391.53	4417.06	4439.97	6305.22 (9/5)	3316.26 (15/1)
THAILAND						
Bangkok SET (30/4/75)	694.12	695.48	699.69	699.69	908.13 (19/4)	582.48 (16/1)
WORLD						
M.S. Capital Intl (1/1/70) ($)	507.3*	507.9	506.5	499.6	529.2 (17/4)	439.1 (16/1)

*Saturday December 14: Taiwan Weighted Price: 4399.61, Korea Comp Ex 639.72.
& Subject to official recalculation. **Calculated at 15.00 GMT.
Base values of all indices are 100 except: BEL20, HEX General, ISEQ Overall and DAX – 1,000; JSE Gold – 255.7, JSE 25 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Tuesday 17 December 1991

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Toyo Ink	11.6	977	-18	Okamoto	4.4	1,110	+40
Mitsui Sugar	6.3	785	-38	Nippon Steel	3.6	380	-10
Vhugoku Marine	6.0	1,210	-10	Yasuda Fire	3.4	879	+3
Nippon Suisan	5.0	698	+12	Nippon Kasei	3.3	640	+17
Clarion	4.5	1,290	-10	Iino Kaiun	3.2	1,150	+10

2:00 pm prices December 17

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1991 High	1991 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
16⅞	9¼	AAR Corp	0.48	4.2	16	1008	12¼	11⅜	11½	-¼
22⅞	14½	A L Labs A x	0.16	0.7	24	270	21⅞	21¼	21⅝	-⅛
55¾	40⅞	AMP Inc	1.44	2.7	21	1009	54⅜	53½	53¾	-⅜
68⅝	44¼	AMR				112668	63¼	62⅜	62⅝	-⅝
2⅝	1	ARX			1	113	1¼	1⅛	1¼	
56	41½	ASA	3.00	6.5	13	508	46	46	46	-1⅛
61⅛	39¼	Abbott Lab x	1.00	1.6	24	2601	u61½	60⅝	61⅛	+⅞
14⅝	9⅞	Abitibi Pr	0.44	3.3	17	10	13⅛	13⅛	13¼	+⅛
11⅝	10⅛	ACM Gvt In x	1.26	11.4		157	11	10⅞	11	
9⅞	8⅞	ACM GvOpp x	1.01	10.6		70	9½	9⅜	9½	
9½	8¼	ACM Gvt Sp	1.01	10.9		214	9¼	9⅛	9¼	+⅛
11	9⅞	ACM Gvt Se	1.26	11.8		347	10⅝	10½	10⅝	
9	7⅝	ACM Man x	1.09	12.3		224	8⅞	8¾	8⅞	+⅛
12⅞	11½	ACM Mnsgd x	1.35	11.0		122	12⅜	12¼	12¼	
7½	4¾	Acme Cleve	0.40	6.7	13	29	6	6	6	-⅛
6	3⅞	Acme Elect			3	6	4½	4⅜	4⅜	-¼
40	22¼	Acuson			18	971	28¾	28⅜	28¾	+¼
20¼	14¼	Adams Expr	1.63	9.0	0	11	18⅛	18	18⅛	+⅛
20⅛	14	Adobe12Pf	2.40	17.3		228	14⅛	d13¾	13⅞	-½
9¼	4¾	Adobe Res			46	1213	5	d4½	4⅝	-½
40½	18	Ad Micro				457	39⅞	39	39	-1
16¼	4⅝	Ad Micro P	3.00	19.4	77	2062	15⅞	15½	15½	-¼
5⅛	2¼	Advest Grp	0.16	3.6	6	129	4½	4⅜	4⅜	-⅛
49⅛	31⅞	Aetna Lf x	2.76	7.4	7	1711	37⅝	37⅛	37¼	-⅛
[illegible]										

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

- X - Y - Z -

1991 High	1991 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close	Chng
68½	35¼	Xerox	3.00	4.6	11	1051	65⅝	64⅝	64⅞	-⅝
51¼	43¼	Xerox4 125				3	50	50	51	+1
25¾	14⅞	Xtra 1.94				12	24⅛	24	24⅛	+⅛
29¾	14¼	Xtra Corp	0.72	2.5	14	115	28⅜	28¼	28¼	-⅛
27⅞	21¼	Yankee Egy x	1.60	6.5	12	103	25⅜	24¾	24¾	-⅝
1½	⅝	Zapata			49	184	⅝	d½	½	-⅛
9⅝	5¼	ZenithElec			2	402	7	6⅞	7	+⅛
18½	12	Zenith Nat x	1.00	7.1	11	1268	14¼	14	14	-¼
6⅝	4½	Zenix Inc x	0.64	13.7		113	u6⅝	6¼	6⅛	-⅛
15⅝	10	Zero Corp	0.40	3.7	14	87	10⅞	10⅝	10⅞	+⅛
41⅝	29½	Zurn Ind x	0.88	2.8	12	253	32	31¼	31½	+¼
18½	10¼	Zweig Fund	1.16	9.0		198	13	12⅞	12⅞	-⅛
10½	8½	Zweig Tot x	0.98	9.4		312	10⅝	10¼	10¼	-⅛

Price data supplied by Telekurs.

Owing to problems at Telekurs, some North American prices are temporarily being marked as xd early.

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full

AMEX COMPOSITE PRICES

2:00 pm prices December 17

NASDAQ NATIONAL MARKET

2:00 pm prices December 17

- X - Y - Z -

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
Xilinx		31	1382	28¼	27¼	27¼	-¼
XL Data		31	89	10½	10⅜	10½	
Xoma Corp		11	1911	19¾	19	19½	
Yellow Fr	0.94	18	1579	25⅞	25⅝	25¾	-⅛
York Rsch		62	329	7¾	7½	7½	-⅛
ZionsUtah	1.44	8	41	39¾	39	39¾	

AMERICA

Dow eases on reports of Fed worries on economy

Wall Street

ALTHOUGH HOPES of an interest rate cut remained high, share prices eased slightly yesterday morning in the wake of reports that the Federal Reserve is deeply worried about the state of the economy, *writes Patrick Harverson in New York.*

By 1.30 pm the Dow Jones Industrial Average was down 6.71 at 2,912.34. *The more* broadly based Standard & Poor's 500 was also lower at midsession, losing 0.68 to 383.78, while the Nasdaq composite of over-the-counter stocks slipped 2.12 to 541.61. Turnover on the New York SE was 111m shares by 1 pm, and declines outpaced advances by more than two to one.

All eyes were on the Fed and its Open Market Committee meeting, which many analysts had predicted would sanction a *pre-Christmas cut in interest* rates. Although by midday there was no move from the Fed, comments from the White House's chief *spokesman that* the economy was still in recession and reports that Mr Alan Greenspan, the Fed chairman, *was deeply worried by the lack* of economic recovery, suggested that an easing of monetary policy was imminent.

Among individual stocks, LA Gear rose $⅝ to $11 on the *news that two senior market*ing executives from its rival, Reebok, had been poached by LA Gear as part of a drive to boost sales. Reebok, up $⅛ at $27¾, appeared unaffected by the defections, while Nike, the *other big sports* shoe maker, firmed $⅛ to $64¾.

A&P fell $1⅛ to $26¾ as the market reacted negatively to a set of quarterly *earnings* figures which were even worse than already gloomy analysts had expected. The supermarket group reported third quarter profits of just 10 cents a share, down from 84 cents a share a *year ago.*

Federal Express eased $1⅛ to $32¼ after the company announced second quarter *profits* of 49 cents a share, down from 71 cents a share.

After a delayed opening caused by an order imbalance *on the sell side,* Dillard Department Stores slumped $7 to $119 in active trading after analysts at Smith Barney Harris Upham and Goldman Sachs, two Wall Street broking houses, cut their earnings estimates for the retail group.

International Paper *fell $1 to* $63⅛ and Union Camp eased $1⅛ to $45⅛ after Prudential Securities downgraded both stocks.

On the over-the-counter market, Amgen fell $2⅜ to $59¾ after Soundview *Financial* cut is investment rating on the stock from a "buy" to a "hold" and lowered its estimate for the company's 1992 earnings.

Canada

TORONTO STOCKS were lower by midday, as caution and year-end selling continued to weigh on the market. The composite index lost 13.3 to 3,332.8.

Declining issues led advances 259 to 180 in volume of 17.5m shares. The new issue of Telus class I shares topped the most active list, trading at C$8⅜ as 3.3m changed hands.

Cominco dropped another C$⅛ to C$19⅝, after slipping C$⅜ on Monday. A subsidiary is pressing ahead with development of a copper deposit in northern Chile.

Commitment to free trade boosts Mexico

Worries about the US economy have faded in recent days, writes **Damian Fraser**

MEXICO'S BOLSA, one of the top performing stock markets in the world this year, may have confounded the pessimists once again. After steady falls in late November and early this month, the market *has* recovered in the past few days, rising 4.1 per cent on Friday and another 1.6 per cent on Monday. In early trading yesterday, the market index reached 1,347, 7.7 per cent down from its November peak.

The recent rise stems from relief that, at their weekend meeting, Presidents George Bush and Carlos Salinas confirmed their commitment to push through a free trade agreement "as soon as possible". In the days running up to the meeting, the market had fallen on "free-trade jitters", according to Mr Timothy Heyman of Baring Research in Mexico City. The stocks immediately hit were the Mexican shares, such as Telmex and Tamsa, traded in New York.

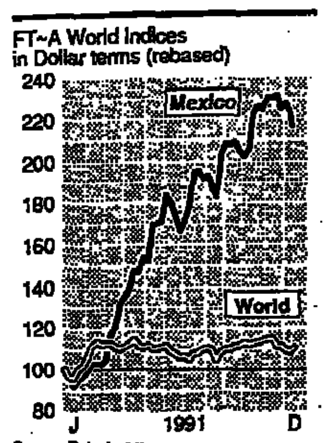
The fall in late November was attributed to Wall Street's weakness and troubles in the US economy. Some 70 per cent of Mexican exports go to the US and, according to a well-used rule of thumb, every 1 per cent reduction in US economic growth cuts Mexican export revenues by around $500m.

A weak export sector will *not only reduce company earn*ings, but may also put pressure on the Mexican peso. Last month the government cut the rate of daily devaluation of the peso against the dollar from 40 centavos a day to 20 centavos *(2.4 per cent a year), even* though the current account deficit is expected to balloon to $11bn this year, almost double last year's. *If* a devaluation looks remotely imminent next year or the year after, the *stock market* could tumble.

The failure to sign a free trade agreement next year would compound the problems. As it is, while the economy can undoubtedly live without the agreement next year, the uncertainty of waiting another year will put off some foreign and domestic investment, and reduce economic growth.

None of this detracts from the phenomenal rise in the bolsa from January to mid-November, largely fuelled by impressive economic figures which, free trade agreement or not, look likely to continue next year. These have encouraged foreign investment.

In spite of the recent decline, Mexico remains 1991's best performer, of those markets included in the FT-Actuaries World Indices, with a gain of 115 per cent in local currency terms. It is also the third best emerging market of the year to



Source: Datastream

date, after Argentina and Colombia, with a rise of 99 per cent in dollar terms, according to statistics from the International Finance Corporation, *part of the World Bank.*

The economy, which is expected to grow by 4 per cent this year, proved more resilient than many had expected in the face of the US economic slowdown: public spending was kept under control, with the deficit set to be 1.3 per cent of gross domestic product, against the original forecast of 1.9 per cent. While the current account deficit reached $9.1bn in the first 10 months, the capital account was in surplus by $15.5bn, helping reserves reach a record $16.7bn.

The buoyant economy helped push up the sales in real terms of the 65 listed companies tracked by Vector, the broker, by 5 per cent *in* the nine months to September. However, operating profits at the same companies grew by 16 per cent (compared with the same period last year), reflecting the ease with which they have been able to cut costs. Net profits increased by 33 per cent, thanks mainly to the substantial reduction in interest rates over the period.

The increase in profits has ensured that, in spite of this year's rally, the *historic price/* earnings ratio of the whole market – currently at 13.7 – is not high when compared with the end of last year (13.2) or with south-east Asian or other Latin American markets.

Foreign investment has been largely responsible for the tremendous increases so far this year, says Mr Jorge Placido of Vector. Spurred by the success of the $2.2bn international equity issue of Telmex in May, foreign investment climbed to $17bn by the end of November – about 19 per cent of the total stock market capitalisation, up from 10.4 per cent of capitalisation at the end of 1990.

While overall foreign investment has risen by $12.7bn since the end of 1990, net new investment is much less. The original $4.25bn in foreign investment has more than doubled in value, as has the $2.2bn international placement of Telmex stock in May this year, leaving net new investment at a little over $6bn.

Foreigners have bought deeply into blue-chip stocks. Of total foreign investment (to October), Telmex accounts for 69 per cent; Cemex, the cement company, 6 per cent; and Cifra 7 per cent. These stocks have led the market for most of the year. However, according to Mr Heyman, some of the fund managers with the most experience in Mexico are beginning to look at the smaller stocks listed on the bolsa.

By contrast, Mexican investors appear to have put *their* money mostly into banks stocks this year. The nine banks privatised to date have sold for $7.2bn, almost all of it from domestic investors.

Enthusiasm for the Mexican market has peaked in the scramble to buy new issues. Last week, Televisa, Mexico's dominant television company, successfully placed stock for $740m in international markets – even though it has lost money for three straight years, and has a negative net worth. The success of the issue, against all the odds, suggests that foreign appetite for Mexico is not yet satisfied.

ASIA PACIFIC

Nikkei falls as exchanges tighten futures restrictions

Tokyo

LATE-AFTERNOON selling in the futures market, triggered by an announcement that Japanese stock exchanges will tighten restrictions on futures trading, sent the Nikkei index lower yesterday. Earlier, arbitrage-related buying had supported share prices, *writes Emiko Terazono in Tokyo.*

The Nikkei average closed 100.38 down at 22,736.29, after reaching a day's high of 22,996.10 and a low of 22,735.79.

Volume remained subdued, totalling 260m shares, slightly up from 220m. Declines led rises by 576 to 387, with 184 issues unchanged. The Topix index of all first section stocks lost 9.40 to 1,718.78 and, in London trading, the ISE/Nikkei 50 index eased 1.98 to 1,284.53.

The index stayed in positive territory for most of the day on index-linked buying by arbitrageurs and small-lot bargain hunting. However, dealers rushed to sell shares in the last 15 minutes of trading after a decline in the futures market, which followed a report that the Tokyo, Osaka and Nagoya stock exchanges would increase the amount of margin required for options and futures trading.

After the market closed, the Tokyo and Osaka exchanges announced that, from today, margin deposits on stock index futures would be raised from 25 per cent to 30 per cent, including a 13 per cent cash portion. Margin deposits for options trading at the Tokyo, Osaka and Nagoya exchanges will also be raised.

Traders, who sold futures in response to the announcement, said that an increase in restrictions would have a negative effect on the futures and cash stock markets.

The Tokyo Stock Exchange (TSE) also said that it would disclose arbitrage positions against stock futures daily from December 20 to increase the amount of information to investors.

Mr Minoru Nagaoka, president of the TSE, said that the stock exchanges would make reviews of the derivative markets in response to criticism from investors that the cash market was being distorted by futures and options-related transactions.

Speculative issues fell on profit-taking. Toyo Ink, the most active issue of the day, lost Y18 to Y977, while Chugoku Marine Paints retreated Y10 to Y1,210. *However,* continued speculative interest supported Iino Kaiun, which added Y10 at Y1,150.

Nippon Suisan, the fishing company, rose Y12 to Y699 on reports of an expected profits recovery. The company posted a pre-tax loss of Y1.4bn in the interim period, but expects to report a pre-tax profit of Y5bn for the full year to March.

The TSE suspended trading in Fuji Kosan, the oil refiner in financial trouble. Mitsubishi Oil announced that it would bail out Fuji with the help from the latter's main lenders. The TSE also announced that it would investigate the possibility of insider trading, following a surge in Fuji's share price since December 10 in volume 20 to 30 times its normal trading levels.

Sansui Electric fell Y15 to Y355. The company said that Polly Peck International had sold its 65 per cent stake in Sansui to Grande, an electronic concern based in Hong Kong, for a nominal Y50 in line with an agreement between PPI and Grande a few months ago.

In Osaka, the OSE average receded 60.36 to 24,631.30 in volume of 65.5m shares.

Roundup

ECONOMIC AND political worries undermined Antipodean markets yesterday.

NEW ZEALAND was depressed by the central bank's economic forecast. The NZSE-40 index fell 18.57 or 1.3 per cent to 1,413.50, as turnover grew to NZ$25m from NZ$17m.

Among the losers, Telecom Corp declined 5 cents to NZ$2.42 and Carter Holt Harvey shed 4 cents to NZ$2.

AUSTRALIA *was subdued* by uncertainty over the government leadership, with Mr Bob Hawke, the prime minister, said to be under pressure from colleagues over weak popularity polls and a soft economy.

The All Ordinaries index ended 5.5 lower at 1,599.7 in turnover down from A$211m to A$161m. Brokers also said that institutions switched attention from the market to decide whether to invest in Tourang, which won its bid for the John Fairfax publishing group on *Monday. A total of A$338m is* being sought from local investment institutions.

HONG KONG saw a rise in turnover, from HK$925m to HK$1.07bn, but trading was still thin as the Hang Seng index rose 13.37 to 4165.03.

Renewed rumours that there would be a cut in interest rates on Friday helped equities to recover from a morning slide. The profit margin prospects boosted banks. HSBC Holdings put on 25 cents to HK$35 while its *Hang Seng subsidiary* gained 75 cents to HK$38.

SEOUL fell for the fourth day in a row, as market-boosting measures failed to materialise. The composite index slipped 7.05 to 623.40 in turnover of Won181bn, down from Won150bn. Financial issues led the decline, in selling connected with the settlement of margin loan accounts.

JAKARTA was steady in heavy trading. The index edged up 0.49 to 246.06 as bargain hunters supported share prices and pushed volume to 9.7m shares from 6.7m.

TAIWAN retreated from its intraday highs to close with the weighted index 8.77 up at 4,400.30 after turnover of T$16.4bn, up from T$15bn.

SOUTH AFRICA

JOHANNESBURG recovered from a morning slide, boosted by the ailing financial rand. *The JSE all-gold index ended 4* higher at 1,198, industrials registered a fall of 13 to 4,135 and the all-share index was unchanged at 3,459.

EUROPE

Late-closing bourses show varied performance

LACK OF a Wall Street initiative left late-closing bourses to their own devices yesterday. This made for some variation in performance, *writes Our Markets Staff.*

PARIS broke back through the 1,700 level on the CAC 40 index, inspired by a rising bond market and comments on inflation by Mr Pierre Bérégovoy, the finance minister. The index rose 14.93 or 0.9 per cent to 1,711.73 in moderately active turnover of about FFr2.5bn, up from FFr1.8bn.

Thomson-CSF, the state-controlled defence electronics company, gained FFr7.80 or 5.6 per cent to FFr147.30, helped by talk of a government plan to prop up the electronics industry. Elsewhere in the defence sector, Dassault Aviation, the military aircraft maker, jumped FFr15 or 5.5 per cent to FFr290 after announcing plans for 1,000 job cuts.

BSN picked up FFr23 to FFr968 after saying it would buy the Agnelli group's interests in Sifit, which controls *four mineral water brands and* a stake in the Peroni beer group, and the Star and Starlux grocery companies.

MILAN traders estimated yesterday's turnover at around Monday's paltry L70bn as the Comit index put on another 5.37 to 505.53. Traders attributed the lack of volume to the hiatus before the SIMS, stockbroker-cum-fund managers, begin operations on January 5.

The banking sector was mixed. The Milan merchant bank, Mediobanca, bucked the positive trend, falling L120 to L13,780. Banco di Roma rose L39 to L2,420 and Banco di Santo Spirito L50 to L2,830 on optimism at their upcoming merger. The insurer, Generali, advanced L435 at the official close to L27,850, retreating to L27,775 later on the kerb.

FRANKFURT attracted small buying orders, and volume recovered from DM2.2bn to DM3.4bn. Company news and short-covering linked to trade on the Deutsche Terminbörse boosted prices late on.

The DAX index ended 8.04 higher at 1,560.93 after a 1.26 *rise to 633.34 in the FAZ at* midsession. The steel group, Thyssen, rose DM2.50 to *DM192.40 on an unchanged dividend* and a 25 per cent drop in 1990-91 net profits, and Daimler-Benz by DM6.50 to DM721.50, helped by profits at its DASA aerospace unit after a loss of DM135m last year.

Continental, the tyremaker, rose DM5 to DM221.50; it is splitting its tyre group into two divisions from January 1 to speed customer service and improve earnings.

AMSTERDAM closed mixed in quiet trading. The CBS Tendency index eased 0.1 to 88.1.

PolyGram fell sharply on persistent speculation that it was considering buying Orion, the troubled US film production company, and on talk of a broker's downgrading. The stock shed Fl 2 or 4.8 per cent to Fl 39.50 in active trading.

Rodamco, the property investment fund, lost Fl 1.80 or 3.1 per cent to Fl 57.20 after reporting a nine-month loss.

BRUSSELS was flat, the Bel20 index easing 0.56 to 1,076.05 in turnover of BFr669m. Wagons-Lits dropped 4.6 per cent on news of an EC investigation into the bid by Accor of France, losing BFr410 to BFr8,500 in thin trading.

Electrorail was requoted after its suspension on Monday, when it announced that it would continue its restructuring programme. It jumped BFr6 to BFr106 in heavy volume of 104,600 shares.

MADRID slipped as investors sorted out their portfolios before the end of the year. The general index lost 1.02 to 236.67 in turnover of about Pta11bn, up from Pta9.7bn.

STOCKHOLM's Affärsvärlden General index was just 0.2 higher at 892.9 but the telecommunications major, Ericsson, continued its decline with the B shares another SKr2.5 lower at SKr89.5.

Volume was heavy as SKr459m worth of shares changed hands, up from SKr344m. Active stocks included Astra A, up SKr12 at SKr552, and Skandia, up SKr7 at SKr173.

HELSINKI hit another new low, the Hex index *falling 5.5* to 769.0.

FT-SE Eurotrack 100 - Dec 17

Hourly changes

Open	10 pm	11 am	Noon	1 pm	2 pm	3 pm	Close
1053.27	1054.18	1055.45	1056.89	1058.15	1058.43	1057.62	1056.74

Day's High 1059.03 Day's Low 1053.27

Dec 16	Dec 13	Dec 12	Dec 11	Dec 10
1051.15	1051.10	1040.33	1034.07	1034.94

Base value 1000 (26/10/90)

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FINANCIAL TIMES SURVEY

1992: The European Market

SECTION III

Wednesday December 18 1991

The hurdles should not be underestimated, says **David Marsh**. The EC has to find a solution for large-scale unemployment and entrenched social problems. The challenge during the 1990s is to manage its own enlargement, while meeting expectations from outside, without disrupting the fine balance among the present 12 members

A bumpy ride on the roller-coaster

WHEN, IN 1985, it launched the plan for a fully-fledged single market for goods and services by the end of 1992, the European Community had little inkling that it was embarking on a self-fuelling roller-coaster.

The momentum built up behind the project has been an important stimulant to the revival in growth and investment in the Community during *the past three years*.

Just as the political map has changed through German unification and the breakdown in east-west barriers, the EC's ambitions have been extended, too.

The hurdles ahead should not be underestimated, but with the agreements forged at the summit in Maastricht earlier this month, the Community has taken a decisive step along the trail towards political and monetary union.

Additionally, well before the possible date for introduction of a single currency towards the end of the 1990s, the Community will be widened with the accession of other states, such as Sweden and Austria, which are now queuing up for membership in the mid-1990s. Waiting in the wings are Poland, Hungary, Czechoslovakia and other states freshly released from the grip of the Soviet Union – though they will plainly have to travel via the gradual route of associate membership.

The Community has yet to find a solution for large-scale unemployment and entrenched *social problems, but the EC's* successful development during the last few years provides the most important ray of hope for the eastern part of the continent which has been looking increasingly unstable.

The challenge for the Community during the rest of the 1990s will be to manage its own enlargement and meet the expectations vested in it from outside – without disrupting the finely-tuned balance of interests and opportunities among its present 12 member states.

One fundamental point is clear. The unexpected achievement of the single market formula in capturing the imagination of businesses, politicians and ordinary people around the Continent has helped imbue the overall goal of European integration with a new driving force. The agreement in October to set up a free *trade* area, from 1993 onwards, between the EC and the seven-nation European Free Trade Association (Efta) was a direct consequence. Provided parliamentary ratification goes through, a total of 380m consumers in 19 countries – the so-called European Economic Area (EEA) – will experience the benefits.

The implications of the 1992 process were not lost on the people of eastern Europe, struggling to come to terms with inefficiency, waste and corruption. Among the factors contributing to the dramatic collapse of communism in the east of the continent in 1989-90, the spectacle of western Europe preparing for a co-operative and dynamic future was one of the most powerful.

Yet, despite the roll-call of positive events which it has helped shape, the success of the single market idea has been only partial. Fears in the rest of the world – especially the US – that post-1992 Europe would become a trade fortress, barricaded off from outside, have not been entirely dispelled. The long-running dispute at the Gatt trade talks over liberalising farm policies, as well as the Community's reluctance to lift barriers on low-cost imports from eastern Europe, has not helped to assuage these worries.

The progressive liberalisation of intra-EC trade has acted as a great stimulus to cross-border business ties, but a thick residue of underlying protectionist *sentiment* remains in key areas. It has been difficult enough to stem such pressures during the last three years of faster economic expansion in Europe. Maintaining resistance may require more political will, now that the continent is headed for a period of slower growth in the wake of the deceleration of the German economy.

The passage to democracy in eastern Europe, coinciding with the disintegration of the Soviet Union, has brought to the fore the need for restructuring of the utmost complexity. Czechoslovakia, Poland and Hungary have succeeded in increasing exports to western Europe since 1988, offsetting part of the decline in commerce with the Soviet Union. Consequently, Germany has become the main trading partner for all three countries – underlining the pivotal position *which the united* Federal Republic occupies in the new Europe. These three countries badly need liberalised markets in the west – as well as plentiful access to western ideas and capital – to stave off disillusionment with life after communism.

Challenges of a different order are also lying in store for the Efta countries – Sweden, Switzerland, Norway, Finland, Austria, Iceland and Liechtenstein. The irony of the EC-Efta agreement is that the idea was originally conceived in January 1989 as a means of postponing any early decisions on enlarging the Community.

In fact, the deal has ended up intensifying deliberations on extending the EC eastwards and northwards. As negotiations got under way, the seven nations of Efta soon realised that they would be taking on economic obligations – in particular, *to* dismantle protectionistic support for indigenous industries – without gaining any new political rights. Additionally, the obstacle to EC membership previously posed by the neutral status of Sweden, Austria and Switzerland suddenly loomed much less large as a result of the ending of the Cold War.

Most of the Efta countries have thus made clear that the agreement with the EC represents simply a stepping-stone on the route to full EC membership. They have effectively been admitted into an antechamber of the EC – the preparation for a move which could swell the ranks of the Community to 18 or 24 by the end of the century.

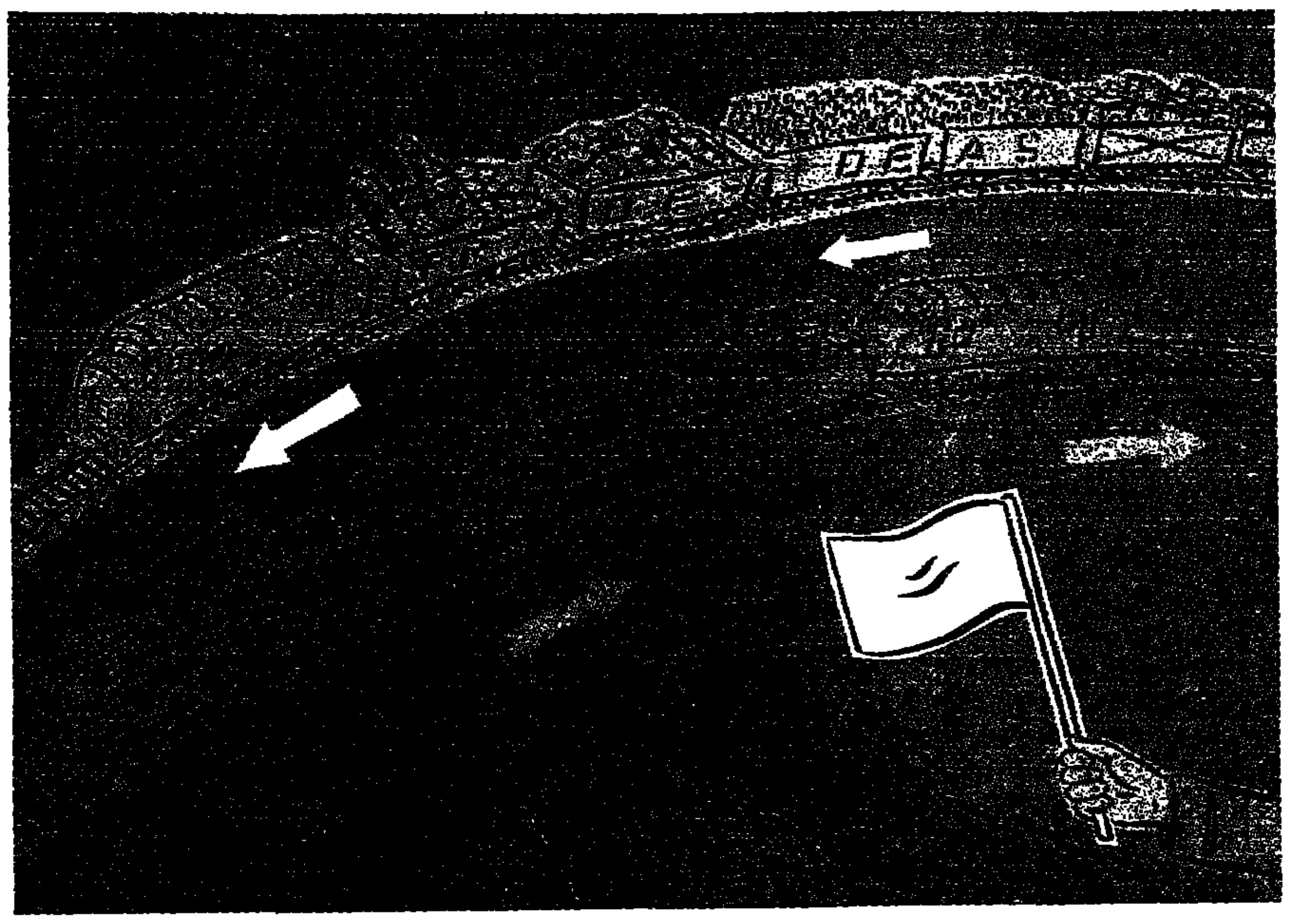
The rapid announcement of the candidacy of the latest escapee from the break-up of the Soviet Union – the Ukraine – has added further to the enlargement headaches that lie ahead. One factor making for caution is that the attractiveness of the EC "model" has partly been a reflection of the economic gloom elsewhere on the Continent. *There is clearly a* risk that the heady hopes held out by countries wishing to join up may be disappointed.

When Mr Carl Bildt, the Swedish prime minister, declared, "Now we can go full speed ahead into the EC" (after the EC-Efta treaty had been agreed in October), he was voicing the hope that the Community would provide balm for the country's deep economic malaise. Sweden, currently undergoing a deep recession, has declared its ambition of joining the EC by 1995. Accession will, however, only come at the price of further economic liberalisation – and this will bring pain as well as reward.

As part of the accord on the European Economic Area, Efta countries will have to dismantle barriers on movement of goods, workers and capital by January 1 1993, although special dispensations will apply to food, fish, energy, and coal and steel. Efta will assume EC rules on company law, consumer protection, education, the environment, research and development, and social policy. Additionally, the countries taking part will also adopt EC anti-trust rules – a significant change, above all, for Switzerland, which at present has no cartel laws.

A foretaste of the pressures caused by liberalisation came earlier this month when Sweden was forced to raise interest rates by six percentage points to ward off capital outflows caused by financial deregulation. Even before this, Mr Ulf Laurin, the chairman of the Swedish Employers' Federation, warned of opposition from fringe political groups against the economic rigours associated with the move towards the Common Market.

Similar worries are rife in Switzerland, where the Efta deal will require ratification by referendums in the cantonal states as well as in the country as a whole. The road to post-1992 Europe will certainly be profitable – but there is every sign that it will also be bumpy.



IN THIS SURVEY

Illustration: John Batten

1992: The European Market 2

Andrew Hill examines the single-market programme

Fifty decisions to go

PEOPLE WHO spend much of their time scanning the horizon are inclined to miss what lies at their feet.

After the rigours of Maastricht, EC governments have been brought down to earth with a jolt this week by a hectic schedule of ministers' meetings and the stark realisation that, in 54 weeks' time, they should be feting the arrival of the barrier-free single market.

Compared with the lofty long-term aims of economic, monetary and political union, the single-market programme seems somewhat mundane: 282 measures, covering everything from boar-meat to banking.

But in the short-term, at least, the EC's attempts to ensure free movement across borders for goods, services, capital and labour will have an infinitely greater effect on the common man and woman than political and monetary union – the principal benefits of which are only just appearing over the horizon.

So with 12 months to go until the self-imposed deadline of January 1, 1993, how close is the Community to a genuine single market?

First, the arithmetic. Of the 282 measures proposed by the British internal market commissioner, Lord Cockfield, in his 1985 white paper on the single market, some 217 had

Lord Cockfield: white paper proposed some 282 measures

been adopted or provisionally agreed by EC ministers by the beginning of last week. By the end of this week, thanks to a spate of council meetings since Maastricht, European Commission officials hope that less than 50 decisions may be left.

The more important statistics are those on the implementation of the single-market measures which have been adopted. Unless directives are transformed into national law, they can have no effect. A table updating those figures was quietly slipped into EC leaders' Maastricht dossiers, partly to shame some of them into speeding up their rate of implementation.

The Commission's cajoling seems to be having some effect. Italy has still only changed half the relevant measures into national law, a long way behind Denmark, top of the class with 93 per cent. But others are making a strong effort. Since July, for example, two former laggards – Spain and Ireland – have pushed through 15 or 16 measures each, according to the Commission.

But the real goal is not to score 282 out of 282. As one Brussels officials says: "We think [the success of the single market programme] will be judged by the extent to which internal border controls have been removed." In that case, the jury is still out, although there have been some notable successes.

In June, for example, Mrs Christiane Scrivener, the French tax commissioner, won a victory on one of the knottiest single-market dossiers, the harmonisation of indirect tax. Member states, including a grudging Britain, reached a political agreement on a 15 per cent minimum standard rate of VAT.

The Commission has yet to decide whether to push its luck with the UK and produce a formal directive on VAT harmonisation – which, unlike most internal market measures, would have to be approved unanimously. But if member states stick to their promises, one argument in favour of border controls – that they are needed to prevent trade distortion caused by bargain-hunting cross-border shoppers – will be swept away.

Others remain. The issue of how to control cross-border traffic in arms and works of art is still a problem. In addition, Britain and Ireland are standing firm on the need to retain stringent checks on animals crossing from continental Europe, to guard against rabies, and others join them in wishing to keep at least half an eye on travellers criss-crossing borders within the EC. The Commission may have more success in pressing member states to abandon some of the unique – and often quirky – national controls on goods as diverse as homing pigeons and stamps.

Some advocates of a truly single market are also critical of what they see as the replacement of visible border checks with new "invisible" systems of monitoring – for example, the administration of VAT for businesses trading within the EC, which some fear might hinder rather than help the growth of cross-border commerce.

Member states are making heavy weather of some parts of the legislative programme, too, particularly the more technical financial or corporate measures. The investment services directive, which would harmonise securities trading across the Community and was once a top priority, seems to have disappeared from view, while some of the company law directives appear to have

Christiane Scrivener: victory on difficult indirect tax dossier

run aground completely. Priority is being given instead to the European Company Statute, which would, in theory, provide a single legal umbrella for Euro-companies – but a number of member states appear sceptical about its chances.

However, this past fortnight of meetings under the Dutch EC presidency – and the fast-approaching 1993 deadline – could loosen small clots of legislation which have been held up. At tomorrow's meeting of internal market ministers, for example, a trio of directives on car standards – blocked for more than a decade by France, Italy and Spain for political reasons – may at last be approved, completing a single set of technical standards for cars in the Community.

Some of the outstanding single-market measures have already been superseded by other legislation; others will be quietly dropped as unnecessary before 1993 arrives. At the same time, in certain key areas – such as car imports, and energy (which was never part of the original Cockfield programme) – the Commission has been forced to concede comparatively long transition periods for the liberalisation of the market, a reflection of the political constraints on the free-trade instincts of sveral commissioners.

Nevertheless, there is optimism in Brussels as the deadline approaches. "My prognosis would be that there's a very reasonable chance that the key elements of the single-market programme will be implemented by January 1993," says one senior internal market official.

The Commission could have an unlikely ally for the final push: Britain holds the EC presidency for the six months immediately ahead of the opening of the internal market, and on this issue at least the Conservative government – if it is still in power by the end of the year – is a convinced Euro-enthusiast.

Charles Leadbeater on competition policy

A three-point debate

THE EUROPEAN Commission's votes on competition-policy cases are the closest it gets to an opinion poll to test the balance of power.

Most recently, crucial votes on a Franco-Italian proposal to take over De Havilland of Canada, the regional jet manufacturer, and state aid for Air France and for Usinor Sacilor, the French steel group, have been a litmus test of the balance of *dirigiste* and liberal opinion on the Commission.

The tension between those who believe in the primacy of competition policy and those who believe an active industrial policy is needed to create European companies capable of matching their competitors in the US and Japan, goes to the heart of the Community's economic aims.

Sir Denys Henderson, chairman of UK chemicals group ICI, says: "There is an urgent need to reconcile industrial and competition policy. The single market is the cornerstone of the European economy, but I do not think market forces alone will make European industry world competitive."

Mr Eberhard von Koerber, chief executive of the German operations of ABB, the Swedish-Swiss power engineering group, acknowledges that, in France and Italy, the state is expected to play a greater role in industrial affairs. But he warns: "We cannot accept French planning as the basis for European policy. Europe must be built upon competitive markets."

Sir Denys Henderson: 'an urgent need for reconciliation'

Mr Wolfgang Kartte, the outspoken head of Germany's cartel office, warns that any commitment to support "industries of the future" could allow a new breed of European companies to be "doped up from a trough of subsidies".

The tension between industrial and competition policy raises difficult questions about the how closed or open the single European market should be to international trade, investment and foreign companies; the respective roles of the EC and national government's in fostering competitiveness; and the links between regional and industrial policy.

Broadly speaking, the liberal camp, which wants competition policy to take the lead in deciding these questions, consists of Britain, Germany and the Netherlands. France, Italy, Spain and Portugal see merit in a commitment to public-sector industrial policies.

Industrial policy is made up of several threads, which together determine the interaction of EC policy and industrial performance.

The EC is directly involved in support to European industry, through research programmes such as Jessi and Esprit in electronics. The EC plans to spend Ecu5.7bn between 1990 and 1994 to support research and development, 40 per cent of it on collaborative research in information technology. It wants to channel this money into fewer, larger schemes, but complains that its spending is diffused because all governments insist on a share of the pie.

European industry also gets substantial sums through the EC's structural funds. Between 1989 and 1993, about Ecu9.5bn is earmarked to support of business infrastructure and increase business competitiveness.

These programmes are diffuse, and the sums involved are small compared with the scale of investment needed in areas such as semiconductors. This might change if spending on the Common Agricultural Policy declined and resources were diverted into other sectors. However, in the main, the debate about EC industrial policy is not about how the EC itself should support industry financially.

The terrain of the debate between industrial and competition policy is marked out by three issues:

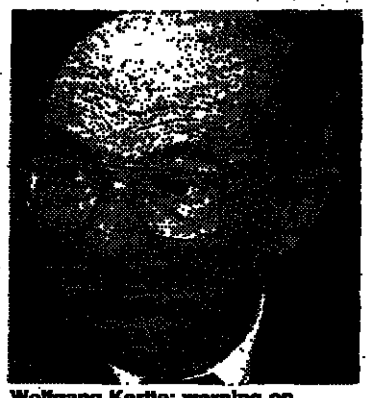
■Trade policy. In sectors such a electronics and automobiles, one of the main issues has been how far European-based producers should be protected from international competition. Significantly, the number of anti-dumping cases brought by the EC, mainly against far-eastern suppliers, has declined markedly in the past four years.

■Foreign investment. Companies wary of Europe's becoming a trade fortress will invest in EC production plants, to make sure their products are not excluded from the market by trade barriers. This means the questions of trade policy – how open the EC should be to international competition – quickly become a question of the conditions imposed on foreign investment. As European companies in cars, electronics, aerospace and aviation seek to extend international alliances, to give them access to foreign markets, technology and resources, the definition and treatment of foreign companies will become a more controversial issue.

Two questions stand out. First, will foreign companies which invest in the EC or form alliances with European partners be given access to EC research programmes? Fujitsu, the Japanese computer manufacturer, which last year took over ICL, the British group, feels it has been unfairly excluded from European programmes.

Second, the future of local-content requirements, which specify that production plants here should obtain a high proportion of their supplies locally. Will these rules be sustainable when leading European producers in electronics, for instance, are increasingly having to consider sourcing from the Far East?

■Competition policy. Narrow competition policy will focus on two issues, which will be central to the way industry develops on the



Wolfgang Kartte: warning on a 'trough of subsidies'

basis of the single market. Again, two issues will be central.

First, will competition remain the overriding issue in considering whether mergers between European groups will be allowed? Or will other factors, such as "international competitiveness", be taken into account?

The lesson which supporters of competition policy draw from Japan is that ferocious competition between a number of domestic suppliers is vital to international competitiveness. But in the airline industry, for instance, companies insist that they must merge within Europe to create groupings large enough to compete with the big US carriers in international markets.

Second, the treatment of public-sector enterprises, particularly in France and Italy, and sectors such as airlines and steel will continue to be contentious. In steel, for instance, private-sector suppliers in Germany and the UK complain that subsidies to public-sector groups in France and Italy are seriously distorting competition in the single market.

Industrial policy is no longer simply a question of subsidies. It increasingly involves subtler questions, such as how standards should be set for such products high-definition television.

The debate between the proponents of competition and industrial policy may crystallise in an argument over the future of the Commission's competition division. Some in the *dirigiste* tendency, most strongly represented in the industry division DG III, would like to see the competition wing merged with the industrial division to create a body with an over-arching view of how EC industry should develop, striking a balance between promoting competition and investment in strategic industries.

The liberals would see this as smothering competition within the embrace of industrial policy. Their preferred option would be an independently constituted competition authority for the EC, modelled on the powerful German cartel office. The authority's institutional independence from political meddling would enshrine once and for all the primacy of competition.

David Dodwell considers the implications for world trade

Anxiety and Europhoria

FOR MR YU Deuk Hwan, Korea's assistant minister for trade, the emergence of a "fortress Europe" is a matter of some consternation. He speaks not just for many Korean exporters, but perhaps also for exporters from many corners of the developing world.

While Europeans have been celebrating the creation of a European Economic Area (EEA), to bring Scandinavia, Iceland, Austria and Switzerland closer to the EC fold, Europe's trading partners worry about raised barriers to their exports, and a widening imbalance in bargaining power.

They foresee the countries of eastern Europe, such as Poland, Hungary and Czechoslovakia, moving towards integration into the European Community, pushing still more markets behind Europe's fortress walls.

How justified are these exporters' fears? Is the creation of Europe's internal market likely to have protectionist results? Worse still, might it trigger a disintegration of the present world trading system, leading to protected regional trading blocs focused on the US and Japan?

Mr Yu is not wrong to focus on the growing might of Europe as a trading region. The 19 members of the EEA will constitute a market of 380m consumers when it is formed in 1993. It will account for at least 40 per cent of world trade.

Nor is he wrong to pinpoint Europe's introversion. A total of 59 per cent of the trade of EC member states is with other countries in the Community. This has risen from 53 per cent in 1980, and can be expected to grow steadily as the process of integration deepens following 1992.

By comparison, the US and Japan are much less introverted. Countries in east Asia buy and sell just 37 per cent of their goods inside the region (up from 33 per cent in 1980), while intra-American trade accounts for 36 per cent of the region's total trade.

The immersion of the European Free Trade Association (Efta) states into the EEA is likely to increase Europe's preoccupation with internal trade. The EC is the predominant trading partner for all six of them.

It will not be long before a strengthened European Commission translates its clout into efforts to have a greater influence on the shape and direction of world trading practices. However, this is likely to be of greater concern to the US, which has, over four decades, used its trading might to define the rules of world trade. Exporters in the developing world, and even in Japan, have long grown used to the need to "play trade to US rules". The emergence of a challenge to the US's defining monopoly might offer advantages as well as disadvantages.

Europe's single-market initiative, which comes into effect on January 1, 1993, has increasingly preoccupied national leaders across Europe over the past year. It has turned businesses' attentions inward, as they have sought to harmonise practices and standards across Europe, rationalise distribution across the single market, and seal strategic alliances with one-time competitors. Companies without a foothold inside Europe could be forgiven for feeling forgotten, or at least marginalised.

It is also plausible to argue that Europe's manufacturers, able to work within the EC's tariff walls, and rationalise production and distribution throughout the single market, will constitute a formidable competitive threat to outsiders. Indeed, this logic – along with fears of being blocked from the European market after 1992 – has pressed many Japanese and US manufacturers to pre-empt problems by establishing subsidiary operations within Europe's frontiers, or acquiring a European company. This has fuelled a surge of inward investment into Europe over the past five years.

Even the Efta countries have been motivated to link with the EC in order to win back manufacturing investment that has in recent years been lost to EC member states. Many observers expect a resurgence of foreign direct investment in countries such as Sweden and Finland once it is clear that output from their factories can be sold without impediment across Europe.

Those familiar with the pernicious effects of Europe's common agricultural policy (CAP) on world farm trade are inclined to see the creation of any new pan-European institutions as protectionist instruments to keep predators at bay. They see "1992" as being driven by protectionist sentiments. They see the "voluntary" restraint agreements, limiting Japanese car sales into Europe, as implausible "anti-dumping" actions that are used as a disguised form of protectionism; and demands for minimum levels of local content, in products coming from non-EC factories based in Europe, as constant reminders of the fortress instincts of many EC member states.

These quite reasonable anxieties have nevertheless diverted attention from some of the positive aspects of European integration. The "Europessimism" of a decade ago has been transformed through the unification process into a vibrant "Europhoria", which is expected to underpin strong economic growth across Europe in the early 1990s.

Some research has estimated that economies of scale, and intensified competition across the single market, can be expected to produce gains of between Ecu62bn and Ecu107bn. The removal of barriers to trade and production across Europe could generate further gains of Ecu65-Ecu80bn. That would add perhaps 5 per cent to Europe's GDP. The larger market would benefit not just manufacturers inside it, but exporters to it.

In addition, non-EC companies operating inside the Community will benefit from the free movement of goods across a market of 380m people. The application of common standards to all countries in the market will simplify the task of selling to them.

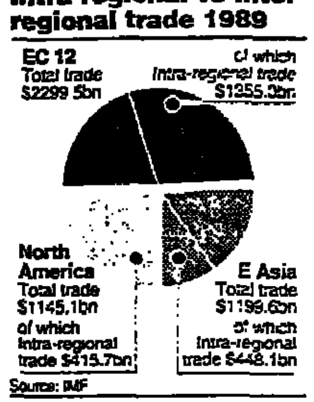
Perhaps most important, many argue that the process of unification has in itself been liberalising. "Experience with the liberalisation of the EC markets has taught governments and sectoral interests in Europe that the retention of *sovereignty is inconsistent* with effective rule-making in interdependent economies," argued Mr Stephen Woolcock, in a recent paper from the London-based Royal Institute for International Affairs.

Companies that have rationalised their operations across Europe have taken a step towards the globalisation of their operations, which would inevitably press them to seek a multilateral route to freer world trade.

For these reasons, Harvard's Professor Robert Lawrence recently argued that emergent regional trading blocs "are more likely to represent the building blocks of an integrated world economy than stumbling blocks which prevent its emergence".

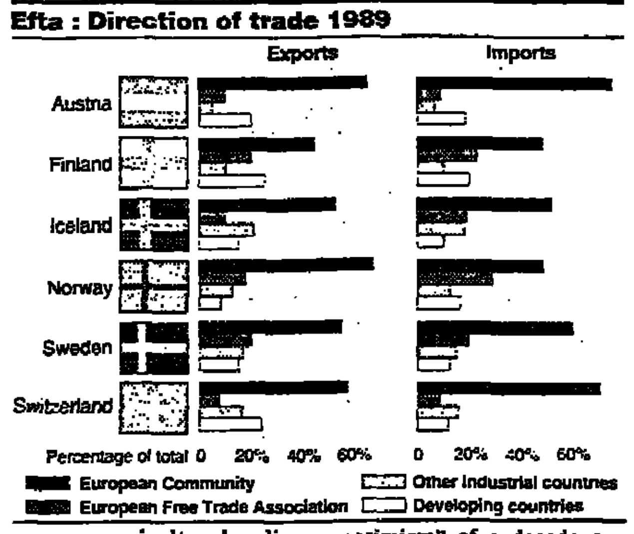
Prof Lawrence may be right, but much will depend on the current Uruguay round of world trade talks. A successful outcome to the talks – which means not just effective liberalisation, but liberalisation without extreme acrimony – *could well turn trading blocks* into the building blocks he predicts. However, if the Uruguay round flounders, his optimism may be ill-founded.

Intra-regional vs inter-regional trade 1989



Source: IMF

Efta : Direction of trade 1989



A pan-European market

Aim is a circle of 22 nations

THE EUROPEAN Community took two large steps this autumn towards creating a pan-European market, by striking far-reaching agreements with the *European Free Trade* Association (Efta) and with central Europe.

The most important and immediate is that which sets up the 19-state European Economic Area (EEA) with Efta. Formal signature has been delayed by last-minute quibbles by the Community's Court of Justice; but once this has *been sorted out, and once the* EEA accord has been ratified by all 19 national parliaments and the European Parliament, the single EC market will be effectively extended to Austria, Switzerland, Sweden, Finland, Norway and Iceland from January 1, 1993.

Basically, these Efta states will be taking on most of the *economic rights and obligations* of Community membership, but without, of course, being full members with a vote in the EC council of ministers. Negotiating this half-way arrangement has been highly *complex, probably more so* than if the Efta states had all gone for straight EC membership.

Switzerland will be given five years to adapt its strict rules on admitting foreign workers

For a start, the Efta countries are to put more than 1,500 pieces of existing Community legislation on their statute books. Through an elaborate system of consultation, Efta countries will be given a hand in the "decision-shaping", but not "the decision-making", of legislation in Brussels.

An EEA council of ministers is to be set up, to decide which *new pieces of EC law* should apply to the EEA zone, and a joint court, with five EC and three Efta judges, will be established to rule on disputes. The EC Court of Justice's quibble is over whether rulings by this court would prejudice its own interpretations of EC law.

The substance of the agreement should allow a free flow of goods, services, capital and labour among the 19 EEA members, with certain exceptions and transitional arrangements. Switzerland, for *instance, will be given five* years to adapt its strict rules on admitting foreign workers.

Three disputes – over fish, money and transit rights – held up agreement for several months. They centred largely on fears by southern EC states that they were letting competitive Efta industries into their markets, for little return. So, as compensation, Norway has been persuaded to give Spanish and Portuguese fishermen more access to its waters; and, more generally, Efta states have agreed to lend poorer EC states Ecus2bn at subsidised interest rates. Austria and Switzerland have agreed to let more EC trucks use their environmentally-sensitive Alpine passes.

Efta will not be taking on the EC's entire single-market programme. The issues of harmonisation of indirect taxes and of alternative controls on people, animals and goods – all related to the removal of border checks within the EC – will not apply, because Efta *states will maintain controls* on their frontiers with the Community. Nor does the EEA affect Efta's relations with the outside world. The EEA will turn the EC-Efta zone into a highly sophisticated free-trade area, but not – at this stage – into a customs union with a common external tariff, which would perforce drag Efta into *following the EC on any trade* sanctions and anti-dumping measures against third countries.

It is nonetheless very ambitious, and perhaps painful for some Efta parliaments to ratify. It involves major changes, one of which is that Efta states will be required to set up their *own supranational equivalent of EC rules controlling monop*olies, restrictive practices and state aids which distort competition. It is this acceptance of many supranational EC rules, without having a vote on them in Brussels, that may lead more Efta states to conclude that they would be better off right inside the Community.

Austria and Sweden have *already reached this conclu*sion, and Finland may do so soon. Norway may follow one day, though Iceland with its uniquely piscatorial economy probably never will.

Opening the Community's frontier to the east are the new accords reached with Poland, Hungary and Czechoslovakia. These so-called "European agreements" are different from the Community's standard association agreements with countries around the Mediterranean, because they explicitly hold out the prospect that this trio of central European states will eventually join the Community.

They will also involve the three countries in a much closer political dialogue with the Twelve than is offered to other states, including the Efta members. This is in recognition of the special security worries that Warsaw, Budapest and Prague feel, with the rise of nationalism in the east and the break-up of the Soviet Union.

But the agreements' economic content is more modest than the arrangements reached with Efta, which has had free trade in manufactured goods with the Community since the 1970s. Free trade in goods between the EC and central Europe is to be phased in over 10 years, with the former bringing down its tariffs and quotas faster than the latter. Likewise, the opening up of service sectors will not happen overnight; while, as regards free movement of workers, the *initial aim* is just to help Poles, Hungarians and Czechs who are legally resident in one EC state to move more easily around other EC states.

As in the Efta negotiations, three sectors caused particular trouble. But the EC finally agreed to:

- Phase out so-called voluntary curbs on central Europe's steel shipments next year, while maintaining a special surveillance over those imports;
- Eliminate all tariffs and quotas on central European textiles within six years; and
- Modestly increase market access for central European farm produce.

France fought hard against the last concession, but eventually gave in, after receiving a Community undertaking that Brussels would try to get Russians to resume buying – perhaps with EC loans – the food they used to *import from* central Europe.

To complete the circle, Efta is in the process of phasing out trade restrictions towards central Europe, so that eventually, by early next century, a free-trade zone of some 22 countries should exist.

David Buchan

1992: The European Market 4

Further change awaits the food industry, says **Guy de Jonquières**

Dancing to the retail tune

THE WAVE of mega-mergers which swept through the European food industry in the late 1980s may have subsided, at least for the moment. But the underlying pressures which powered it continue to gather strength, pointing to further rapid change in the industry's structure during the 1990s.

Not that acquisition activity has ground to a halt. Food remains one of the most fragmented industries of its size in Europe, affording plenty of scope for further concentration both within and across borders.

But the recent emphasis has been on smaller deals. That reflects in part the dwindling number of large takeover opportunities and an onset of caution among even the most well-heeled predators as to whether fresh acquisitions at recent sky-high prices can be made to pay in a recessionary climate.

Behind the re-shaping of the industry lies a growing perception that securing brand leadership and scale in a carefully selected range of businesses is increasingly vital to generate the returns needed to survive long-term.

At its most brutal, the message is summed up in the much-quoted dictum of Mr Antoine Riboud, chairman of BSN of France: "In this business, the No 1 makes a lot of money, the No 2 can make a decent living, the No 3 just suffers."

In practice, such logic has encouraged a high degree of specialisation, even among the biggest food groups. Most of Nestlé's businesses are clustered around coffee and milk-based products. Philip Morris in Europe is concentrated largely on cheese, coffee and chocolate, while Unilever's core strengths are in edible fats, ice cream and tea.

Mr Floris Maljers, Unilever's Dutch co-chairman, argues that a principal benefit of large-scale specialisation is that it permits heavy investments in innovation. He says his company's strength in edible fats, for instance, owes much to research breakthroughs in polyunsaturates, which smaller rivals were unable to match.

To fund such investments, manufacturers need to seek ever larger markets for their products – an objective which, in Europe, involves a complex balancing act. Substantial efficiency gains can be made by concentrating production for the whole region into fewer plants, as most bigger companies are doing.

However, transferring products across borders is a tricky business in a region renowned for its national taste differences – and frequently boils down to trial and error. Even the few genuine "Euro-products", such as Mars bars, are often subtly tailored to local preferences. Sometimes it is easier to transfer concepts, such as healthy eating, between countries than the products themselves.

Partly because of Europe's diversity, there remains plenty of scope for small and medium-sized food manufacturers, provided they are intelligently specialised.

For instance, Barrilla of Italy and Bahlsen of Germany thrive by focusing respectively on pasta and premium biscuits, while Britain's Northern Foods remains the European leader in chilled convenience foods, albeit entirely on the basis of the UK market.

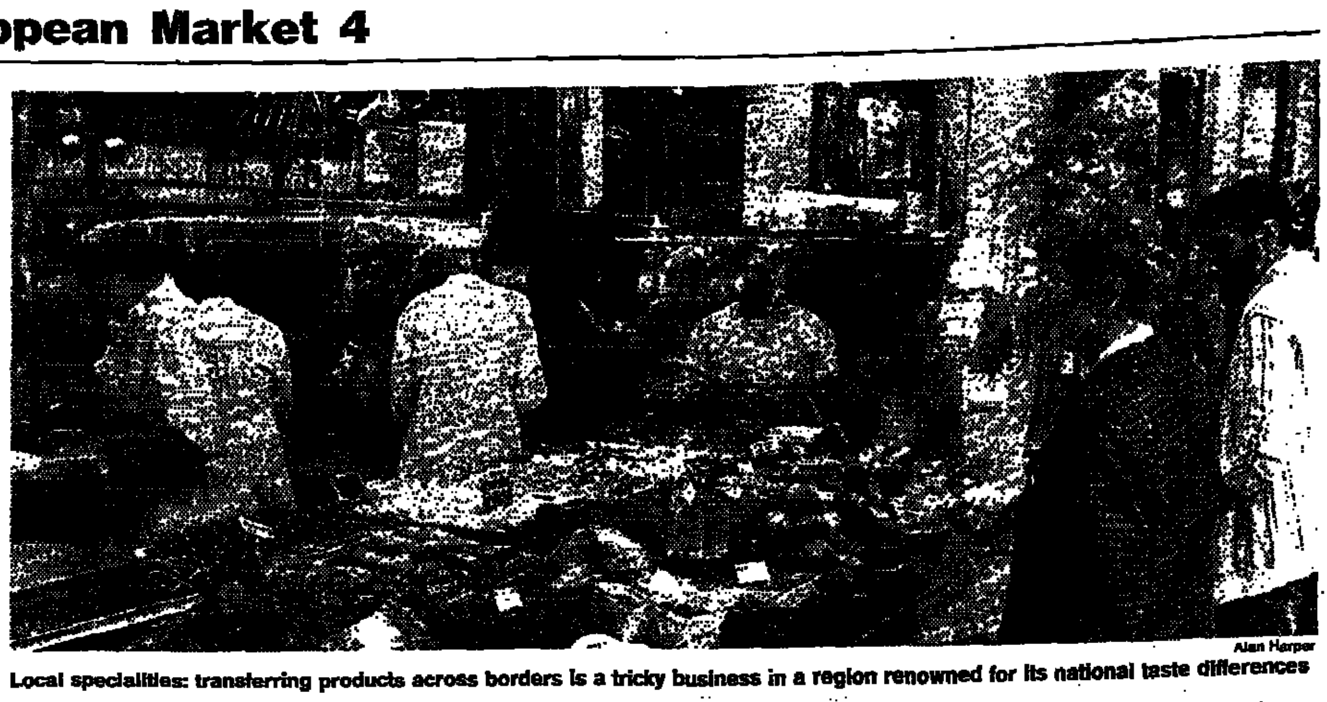
Even BSN, though the fourth largest European food company by turnover, has a decidedly regional emphasis. Half its sales are still in France, and half the rest are in Italy. BSN's good fortune is that both countries are trend-setters in international taste.

Furthermore, the food industry is sufficiently fast-moving to deny established sector leaders a monopoly over product innovation. In ice cream, many of the most original recent developments have been initiated by outsiders such as Mars, which re-defined the business by launching frozen bars, and Grand Metropolitan, which has successfully transferred Haagen-Dazs from the US to Europe.

Increasingly, winning and maintaining leadership in any sector of the food industry depends on being able to offer a distinctive product. Important as advertising and marketing are, they are no longer sufficient on their own to guarantee brand strength in increasingly crowded markets.

As Dr Jim Grover, of OC&C Strategies, a London-based consultant, puts it: "In the past you could sell by playing the perceived benefits game. In the future, manufacturers will have to spend more time and money on the products themselves."

That does not just mean faster new product launches, but also the constant updating of older lines. Nestlé and Kelloggs, for instance, have been able to keep profitable leadership, respectively, in instant coffee and breakfast cereals through steady improvements in production technology, which have yielded perceptible benefits to the consumer as well as enhancing efficiency.



Alan Harper

Local specialities: transferring products across borders is a tricky business in a region renowned for its national taste differences

These trends, clearly, spell bad news for manufacturers with portfolios of "follower" brands, or a competitive advantage based solely on low-cost production. They are likely to find it increasingly hard to differentiate their products in the market and, consequently, to convince profit-conscious retailers to give them shelf-space.

In the short term, these pressures are being exacerbated by slower economic growth throughout Europe. Longer-term, they will be sustained by shifts in the balance of power between suppliers and retailers, largely in favour of the latter.

These shifts are only indirectly related to cross-border expansion – a process which has developed much more slowly among European retailers than among their suppliers. Few, if any, supermarket chains have established a sizeable presence outside their home markets, while the much-trumpeted emergence of trans-European retail buying consortia has yet to have any real impact.

Much the most powerful weapon at the retailers' disposal is technology, chiefly in the form of computerised systems which provide a stream of highly detailed up-to-the-minute data on sales turnover, stock levels, orders and delivery schedules. The installation of such systems is furthest advanced in the UK, where supermarkets have also invested in centralised distribution networks, with larger Dutch chains not far behind.

Such systems greatly strengthen the retailers' bargaining power by providing them with superior information. That, in turn, has enabled them to extend their influence over the supply chain well beyond manufacturers' factory gates into the factories themselves. In the UK, one consequence has been the steady growth of supermarkets' own-label products, which now account for one third of their total food sales.

The prospect of having to dance increasingly to the retailers' tune is unsettling even some of Europe's biggest manufacturers. One symptom of their discomfort was a recent speech by Mr Mike Heron, a Unilever director, at Templeton College, Oxford, calling for a radical change in the retailer-supplier relationship.

Both sides, he argued, should seek to replace their traditionally adversarial attitudes with "strategic partnerships" designed to maximise mutual benefits. An essential condition was that retailers share proprietary commercial information more freely with their suppliers. In the power struggle in Europe's food industry during the 1990s, much may depend on how the big retailers respond.

Car makers are under pressure to be more competitive, says **Kevin Done**, as...

Transplants put heart into Japan

EUROPE IS becoming the main battleground in the world automotive industry in the 1990s, with Japanese car makers set to increase rapidly their market share as local production builds up.

In consequence, European car makers are under intense pressure to restructure their operations and management methods, in order to become fully competitive in a world market.

According to Sir Leon Brittan, EC competition commissioner, the earlier boom years enjoyed by the European motor industry "sadly, have not always been used by European producers in order to restructure, to remain at the forefront of car technology and to develop new production and management techniques."

The understanding finally reached by the European Commission and Japan at the end of July, on the vexed issue of Japanese car sales in Europe, appears effectively to have set a limit until the end of the decade on the level of direct exports from Japan to the EC of cars and light commercial vehicles.

The agreement, reached only after years of tortuous negotiations – among EC member states themselves, as well as between Brussels and Tokyo – suggests a level of direct imports from Japan in 1999 of 1.23m vehicles (cars and light commercial vehicles of up to five tonnes), compared with a level of 1.24m in 1989.

The way appears to have been left open, however, for Japanese car makers to build up significantly the volume of vehicles assembled at so-called transplants (Japanese plants in Europe), with no restrictions being placed either on Japanese investment or on the free circulation of European-built Japanese vehicles in the EC.

Japanese vehicle makers also appear to be free to export cars from the US to Europe outside any ceiling.

When the deal was announced, Brussels said it had estimated that output of Japanese cars in Europe could rise to 1.2m by 1999. Officials of the Japanese Ministry of International Trade and Industry insist that Tokyo has not accepted any such limit, and the Commission admits the 1.2m figure was only an internal "working assumption".

Interpretations of the agreement also differ greatly, with London insisting that no limit has been set on the level of transplant production, while French car makers appear to consider the 1.2m units as a ceiling.

According to an Economist Intelligence Unit forecast, Japanese vehicle manufacturers could produce more than 1.8m vehicles a year in Europe by 1999, including cars and light commercial vehicles, compared with 257,000 in 1990.

Under the deal between the European Commission and the Japanese Ministry of International Trade and Industry, Japan will monitor exports to the EC as a whole, in accordance with a forecast level of exports in 1999 of 1.23m, based on an assumed level of demand in the EC of 15.1m (cars and light commercial vehicles) in that year.

Most automotive analysts consider that sales will easily exceed this level by the end of the decade, however, as the EC forecast suggests only a minimal growth of 0.8 per cent a year from the 13.946m vehicles (cars and light commercial vehicles) achieved in 1989.

Included in the overall export figure of 1.23m are sub-ceilings for exports to the five EC states – France (150,000), Italy (138,000), Spain (79,000), Portugal (23,000) and the UK (190,000) – which now impose national curbs on Japanese car imports.

The five have promised to end their national restrictions by the end of 1992, by which time the EC must also have introduced single-type approval for cars, setting common specification standards, and thereby greatly simplifying the engineering of cars for sale in Europe.

From 1993 until the end of the century, it will be up to the Japanese side to control the flow of their direct car exports, following consultations every six months with the EC. The aim of the deal is that the EC car market should be fully liberalised from the end of the decade, although scepticism remains about how the agreement will work in practice.

Last year, Japanese car registrations in western Europe increased by 5.6 per cent to 1.54m in a total market of 13.2m, representing a market share of 11.7 per cent. In the EC alone, the market share was 10 per cent, compared with 30 per cent in the Efta countries.

While Japanese car makers captured a 5.1 per cent share of the "restricted" European markets last year, they already controlled more than 30 per cent of the "open markets".

Yet, even before the full Japanese assault on the European car market is launched, several of the traditional European producers have found themselves on a bumpy road into the 1990s.

In the last two years, sales patterns have diverged sharply in different European markets, as demand in several key volume countries, such as the UK, France and Spain nose-dived, while sales in Germany surged to a record level.

Many German car plants have worked at full capacity, while the industry elsewhere has been forced to shed thousands of jobs. The profits of some car producers in Europe, such as Renault and Ford, have plunged; while others, such as Rover, Volvo, Saab and Jaguar, have collapsed into loss, in the face of severe sales problems, not only in Europe but also in the US.

The UK has suffered a slump with a 20 per cent fall in new car sales in 1991. Only the German economy has provided badly needed support for the western European car market, which is still forecast to grow 1.7 per cent this year to a record 13.5m.

Excluding Germany, the western European new car market is set to show a fall of around 8.7 per cent for 1991, however, with only four of 16 markets – Germany, Greece, Portugal and Austria – showing growth according to the latest forecast by DRI Europe, the London-based automotive analysts.

The west European market is forecast to fall by 2.4 per cent to 13.15m in 1992, largely reflecting an expected 19 per cent drop in German new car demand to 3.3m. Excluding Germany, the demand outlook is more favourable, with western European sales elsewhere forecast to recover by 5 per cent to 9.8m next year from 9.3m in 1991.

Air transport

A time for alliances

THE EUROPEAN Commission could not have picked a more difficult time to open up Europe's skies.

The airline industry is still struggling to recover from its worst cyclical downturn in 40 years, provoked by the recession and the devastating impact on air travel caused by the Gulf war.

The prospect of air transport liberalisation in Europe has also led to a frantic scramble in the industry to negotiate alliances, mergers and marketing agreements to position airlines in a new, more competitive deregulated market.

The lessons of air transport deregulation in the US are haunting European carriers. Deregulation has led to unprecedented concentration in the American airline industry which is now dominated by a handful of giant carriers.

In the past 13 years, the US industry has seen 150 airline bankruptcies and 50 mergers. Out of 176 new US airlines which attempted to enter the market, only one, America West, is still alive, and it is currently operating under the protection of the US bankruptcy code.

European carriers, both large and small, have sought to protect and strengthen their chances of survival in a new liberalised environment by negotiating partnerships with other European and international carriers.

British Airways has been negotiating a global alliance with KLM Royal Dutch Airlines and Northwest Airlines of the US; Air France is hoping to invest in a stake in Belgian carrier Sabena; the Scandinavian Airlines System, Swissair and Austrian Airlines have formed a marketing and co-operation partnership called the European Quality Alliance.

Trevor Humphries

Bernard Attali: 'larger entities'

Mr Bernard Attali, the Air France chairman, recently said he expected to see European carriers creating larger entities, based around a few important European airport hubs, competing against the big US and Asian carriers in a few years time.

Unlike US deregulation, liberalisation of air transport in Europe has been a gradual process, based on three separate packages of measures. These have included much greater flexibility and freedom in setting fares and offering services on intra-European routes. The ultimate idea is to break down all national barriers between EC countries to create a truly open market within Europe.

But this is unlikely to suddenly happen in January 1993, the target date for European "open skies". Governments are expected to try to dilute full liberalisation to protect the interests of many state-owned national flag carriers in Europe. Many in the industry believe that complete liberalisation will not occur before 1996 or possibly even later.

A free market is supposed to provide consumers with more choice and lower fares from greater competition. But concentration risks undermining competition, although the EC has committed itself to ensure big airlines do not abuse open skies.

Competition also risks being distorted by the chronic infrastructure problems facing European air transport. Congestion in European airspace is acute. Many large airports are saturated. Although individual countries have been investing to improve and expand their air-traffic control systems, efforts to harmonise the different systems to create a single European air traffic control system have been slow because of political obstacles.

Building new airport and runway facilities has proved even more difficult. As a result, one in every four flights in Europe is still delayed by more than 15 minutes, and new entrants in the market are handicapped because of the lack of capacity available at busy airports.

The challenge for the EC in 1992 will be to put into place a competition policy which will protect consumer interests at the same time as allowing European airlines to develop strategies to compete in an increasingly global civil aviation market.

The Commission itself is split. One camp is worried that mergers and alliances between large carriers will reduce choice and squeeze smaller airlines out of the market. The other believes European carriers will need to match the size and world market penetration of the big US and Asian airlines if they are to survive in the global market place. A way will have to be found if liberalisation is to work in Europe.

Paul Betts

David Barchard and Richard Lapper on financial services

Seeking a unified system

A GENUINE single market will need a unified financial system. With that in mind, the Commission had prepared its directive on banking by 1989.

Rather than impose a new set of arrangements on banks in member countries, it has tried to give them the freedom to expand across frontiers.

To operate anywhere inside the European Community, a bank will need only to have a licence from one EC member state. It will then be able to provide banking services in any of the 11 other member states.

Banking, under the terms of the directorate, will not mean just taking deposits and lending money, but also investment banking services, such as fund management and stock-broking, and related services such as insurance.

This does not mean that banks will find it easy to rush into each other's markets. Some markets (the UK and France) are already more open than others (Germany). Some financial services are more easily transplanted than others. Insurance crosses frontiers more easily than housing finance.

But the banks have started to prepare for a future in which national boundaries will no longer mean much. They have tried several strategies.

To operate anywhere inside the EC, a bank will need only to have a licence from one member state

■Some banks have bought subsidiaries in other European markets. Deutsche Bank bought the leading UK merchant bank, Morgan Grenfell, two years ago. Abbey National and Woolwich building society have bought subsidiaries in France, Italy, and Spain.

■Some smaller players have made cross-frontier alliances, cemented by cross-shareholdings. Bank of Scotland and Santander established an alliance in 1988. There have been plenty of others. Recently TSB and Cariplo of Italy set up an alliance.

■Others have pooled their resources to serve one particular type of customer, often the small businessman. Royal Bank has IBOS; while Crédit Agricole of France, Rabobank of the Netherlands, Banco Ambrosiano of Italy, Lloyds Bank of the UK and Bayerische Vereinsbank of Germany have another agreement, allowing each others' customers access to their branches.

One area of banking where the Commission wants to see rapid progress is the crucial one of clearing systems. At present, transfers of money across frontiers and between currencies in the Twelve are slow and expensive.

The banks are reluctant to move away too fast from their domestic clearing systems – or to give up the handsome fees they earn at present on cross-national currency transfers. But the Commission is prodding them to do so.

In the insurance markets, things are moving faster. With much of the regulatory framework either in place or at an advanced stage, a single European market in insurance is well on the way.

Cultural, tax and other peculiarities mean that the market will be far from perfect, yet insurers across the Community recognise the scale of opportunities being created, and within the last few years there has been a plethora of initiatives as insurers have positioned themselves to take advantage of them. Insurance has long been the poor relation in the European Commission's efforts to forge liberalisation in the financial services market, but over the past two years the Council of Ministers has approved regulatory changes.

The second non-life directive – approved by Brussels in 1989 and now implemented by most member states – represents the most significant step forward, by allowing medium and large commercial and industrial companies to buy insurance cover from insurers based in any member state.

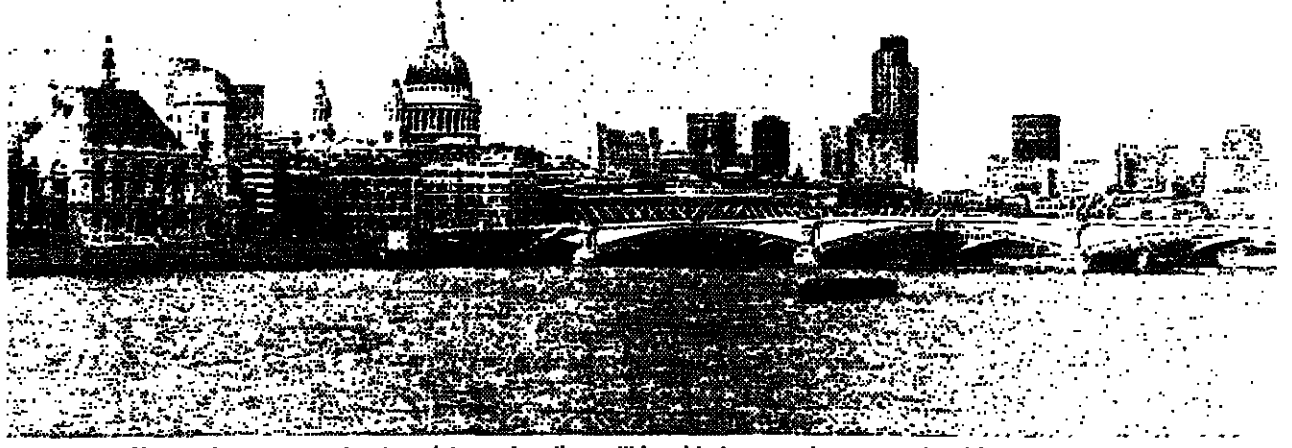
Other directives will also extend to sales of personal lines of insurance to individuals throughout the Community. The European Commission hopes the Council of Ministers will approve three further directives in the next year. One would harmonise accounting standards. Two others would establish a "single licence", allowing suppliers of life and non-life insurance to operate freely across the EC.

The prospect of a single market has stimulated a number of insurance companies to expand their activities across the continent. Initiatives have taken a variety of forms.

In straight acquisition, Allianz, the Munich-based German insurer, has been the hungriest predator. Since the mid-1980s it has bought subsidiaries in most European markets, including RAS (Italy's second largest insurer), Rhin et Moselle (of France) and Cornhill (of the UK).

In other cases, the potential cost of acquisition has been excessive so, like the banks, some insurance companies have developed a variety of deals, which range from joint-ventures to strategic alliances.

Royal Insurance of the UK, Fondiaria (Italy's third largest group) and Aachener und Münchener (of Germany) are also discussing the development of a long-term alliance, which seems likely to focus on business outside their home countries. Other insurance companies have set up operations from scratch in neighbouring territories, or thrown more resources into existing foreign subsidiaries. Winterthur of Switzerland and Topdanmark of Denmark have both begun direct motor-insurance subsidiaries (combining telephone sales with mass media advertising) in the UK; while General Accident and Commercial Union have adopted the same techniques to expand their French operations.



Heart of the City: banks are preparing for a future when they will be able to expand across national frontiers

Securities

Heated dispute

THE FINAL part the Commission's financial services programme concerns the securities markets – and it is here that the most intractable differences of opinion between member states have arisen.

London already boasts the most developed international investment markets, covering Eurobonds and international equities. Yet efforts by some countries – notably France, Italy and Spain – could force investment business within the EC back into national market-places.

The proposed Investment Services Directive (ISD), which provides the battleground for this particular dispute, has still to be agreed, in spite of being targeted by the Dutch presidency as a top priority. Similarly caught up between warring states is a related directive on minimum capital requirements for non-bank securities firms, which London fears could also jeopardise its position as an international financial centre.

Parallel to the ISD has been the failure this year of negotiations between national stock exchanges, which could have led to a single, EC-wide stock market. Any spirit of co-operation that once existed has disappeared in the rush by national centres to make their own markets more appealing.

Any agreement that emerges is likely to focus on one fundamental distinction: that the services and level of regulation demanded by retail investors, who deal mainly in domestic markets, are different from those demanded by professional investment institutions, which these days drive investment markets and have an international perspective. That agreement, though, seems some way off yet.

Richard Waters

Alan Cane reviews the ailing electronics industry

In search of a level playing field

THE SINGLE market seems unlikely to bring much cheer to Europe's ailing electronics industry. Most of the region's large computer and semiconductor companies are losing money. Their share of the global information technology market is disproportionately small and falling.

Europe's large semiconductor companies – for example, Siemens of Germany, Philips of Holland and the French/Italian SGS Thomson – produce only about 10 per cent of the world's output of chips, compared with 36.5 per cent for the US and 49.5 per cent for Japan.

The output of Europe's computer manufacturers is sufficient to meet only two-thirds of the region's demand. Its IT trade balance with the rest of the world is deteriorating steadily.

The sources of Europe's continuing uncompetitiveness are deeply ingrained. First, it is less a single homogeneous market than a series of small markets, each with its own "national champion" but each one too small to allow the economies of scale necessary in today's capital-hungry IT business.

Furthermore, products developed in Europe are rarely successful across national boundaries. An exception is business software developed by the German software house SAP, which a number of multinational companies are now adopting as standard across their organisation.

Second, Europe has significantly failed to take a lead in world IT. In semiconductors, the US companies Intel and Motorola lead in microprocessors, while Japan and other Asian countries lead in memory. The US still sets the pace in data-processing, from mainframes to personal computers, while the Japanese have pioneered truly portable "notebook" computers. US companies dominate the world software market.

There are occasional bright spots. Inmos, part of the French Italian SGS Thomson group, provides IBM with key personal-computer chips, and Siemens is working with IBM on future generations of semiconductor memory.

Third, Europe's computer manufacturers have found it impossible to sink their differences in the development of a united front against the US and Japanese competition. There have been continuous discussions between the leading players – Siemens Nixdorf of Germany, Groupe Bull of France, Olivetti of Italy and ICL of the UK – but each attempt to put together a joint initiative has collapsed over questions of management and control.

The sale of ICL to Fujitsu of Japan, last year, essentially put paid to any ideas of a Europe-wide coalition. Ironically, ICL at present seems to be the most successful of all the European-based computer manufacturers. It is profitable, and Fujitsu intends to market its personal computers and workstations outside Japan. At the same time, ICL is planning to market Fujitsu's IBM-compatible mainframes to customers in Eastern Europe.

Competition for the native producers is certain to intensify. The US and Japan have been active in establishing plants within Europe.

The list includes: Motorola, Texas Instruments and Intel, of the US; and NEC, Hitachi, Toshiba, Sony and Mitsubishi, of Japan. In late November, Fujitsu, Japan's leading computer manufacturer, opened its first semiconductor manufacturing plant in Europe, at Newton Aycliffe, County Durham, representing the first £200m of a planned £400m investment.

European countries and companies seem hopelessly divided over the best way to combat the threat from outside. Mr Michel Carpentier, director general for the information technology industries at the European Commission, says there is a five-point plan through which the Commission will attempt to help the European industry.

■It will stimulate demand for IT, by providing the impetus for what has become known as the European Nervous System, a trans-European data network designed to co-ordinate aspects of social policy in the countries of the Community.

■Sponsored research will be closer to the market than in earlier programmes, which have been essentially precompetitive.

■The Commission will continue to develop training programmes, to diffuse technological skills and knowledge through the community.

■It will attempt to ensure fair competition within the IT business, by stepping up political efforts with countries that have clear structural barriers to trade.

■And it will seek ways of financing European high-technology investment: "The Commission would like to develop, in collaboration with public authorities, financial institutions and the industry itself, instruments to improve the financing conditions at a level which is similar to that of our main competitors."

The implication is clear: the Commission will do what it can to level the playing field, but the quality of the game remains a matter for the players themselves.

Telecommunications

Still far from a network Utopia

FROM JANUARY 1 1993, jet-setting executives will be able to pick up a phone in any European Community country, dial 00 and know that they have selected the correct access code for an international call.

Liberalisation of the EC telecommunications market must have come a long way, one might think, if ministers – who agreed this measure on November 4 – are reduced to debating such trivialities.

Indeed, much has been done. The European Commission adopted a green paper on the liberalisation of the telecoms terminal equipment sector and telecoms services in 1987. Almost all its legislative goals have been achieved.

As Gijs de Vries, the Dutch MEP, said in September: "This in itself is a remarkable feat, in view of the highly politicised nature of the telecommunications industry and the controversial character of many of the proposed directives."

In 1989, member states agreed a directive on telecoms services and a framework directive on open network provision. The former opens value-added services – such as electronic mail and video-shopping – to competition. The latter has already spawned a subsidiary directive – agreed at the same November meeting of ministers – setting out the criteria for allowing non-discriminatory access to leased lines.

Terminal-equipment markets have been liberalised and, as a by-product of the single market programme, the Commission is challenging restrictive procedures for public procurement in the telecoms sector.

But much work remains before telecoms users will be truly satisfied with "a technically advanced, Europe-wide and low-cost telecommunications network" – the Utopia of the 1987 green paper.

Most member states are proving sluggish to implement the telecoms directives. A satellite green paper is set to change the regulatory environment, but faces obstacles in the form of existing treaties for dividing up the "space segment" of satellite activities. Perhaps, most important, the Commission still faces the difficult political question of how to break up monopolies in ordinary phone calls.

Not that Brussels is short of ammunition for the fight against monopolies. Within the past 18 months, the Commission has strengthened its armoury of weapons for challenging dominant positions in the public and private sector.

In September 1990, Sir Leon Brittan, the competition commissioner, introduced the EC merger regulation which allows the Commission to examine and, if necessary, unravel takeovers which are anti-competitive. He has already acted against one telecoms merger, forcing Telefonica, the Spanish telecoms monopoly, to break off shareholding links with its main suppliers of switching and transmission equipment – Alcatel and Telettra – after the two companies merged.

More important for the voice telephony question, the European Court upheld the Commission's right to use Article 90 of the Treaty of Rome to issue directives aimed at breaking up unjustified public monopolies without member states' formal approval. The telecoms terminals directive and the services directive were both issued under such authority and had been challenged by national governments.

Free-marketeers believe the reinforcement of Article 90 gives Brussels the means to champion consumers who have become fed up with paying much more for their international and intra-EC calls than their US counterparts, as a side-effect of the fragmentation of national markets.

The services directive singled out voice telephony as an area in which the decision to introduce competition would be left to member states, but the Commission has to review such reserved services by the end of 1992. Brussels is already working on a voice telephony directive, which could apply the results of that review. At the same time, the Commission wants to lay down tariff principles. If the review finds that the national telecoms behemoths have not changed their anti-competitive ways, they may find Article 90 being used against them as well.

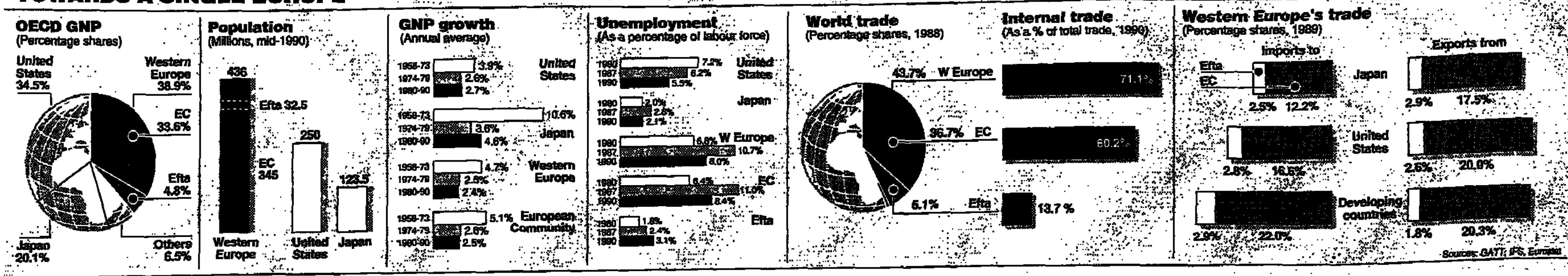
"In voice telephony, the Commission has three aims," says one official: "making sure the user has rights and understands what they are; opening up these networks to allow more competition and more innovative services; and trying to create a Europe-wide telephone service which goes a little bit further than straightforward calling."

It seems unlikely that all those ambitions will be realised by 1993, but it is clear the jet-setting executive will eventually get more from the single market than a harmonised international dialling code.

Andrew Hill

1992: The European Market 6

TOWARDS A SINGLE EUROPE



Steel industry

Special status under threat

STEEL HAS a historic status within the European Community. The single-market programme could mark the biggest threat yet to the industry's special standing.

The Treaty of Paris, the cornerstone for the EC, has been the source of the industry's special status since 1951. The logic of the single-market programme is that steel should become an industry just like any other, subject to the normal rules of competition policy. The transformation in the industry's position is symbolic of how the EC aims of economic integration have changed in a decade.

Under Article 58 of the Paris Treaty the EC, in October 1980, introduced "manifest crisis measures" which sanctioned the collusion between companies, heavy government subsidies to keep loss-making producers in business, protection against lower-priced imports, and commission regulation of the quantity and price of virtually all steel produced within the Community. It was a free marketeer's nightmare, the antithesis of the liberal aims underpinning the single-market programme.

Supporters of the manifest crisis regime argue that, in the 1970s, steel's crisis was not purely industrial: it threatened a political crisis at the heart of the Community. The steel and coal community was the starting point for the creation of a wider common market. If the steel community had disintegrated into industrial nationalism, the development of the common market as a whole would have been retarded. So the Commission had to take responsibility for its well-being.

Nevertheless, the regime succeeded in warding off nationalism only at a considerable price: distortion of the industry's structure. Smaller private-sector steel makers were driven out of business by larger groups backed by hefty state subsidies. New entrants were deterred and technological change retarded.

In the past decade, the industry has changed considerably. The manifest crisis measures were withdrawn in the late 1980s, when economic growth and lower costs pulled most steel makers back into profit. Production capacity was cut, so that surplus capacity was reduced from about 80m tonnes at the start of the 1980s to about 20m tonnes now.

Industries in France, Italy and Britain were substantially restructured under state ownership. Thousands of workers left the industry as new technologies such as continuous casting were widely introduced.

However, in spite of political initiatives under the manifest crisis measures and the corporate initiatives to be more efficient, there are still huge swings in the industry's fortunes.

Slower growth and a steep fall in prices have taken a heavy toll upon steel-producers' finances in the past few months. British Steel, widely regarded as Europe's financially strongest producer, last month reported that its first-half pre-tax profits had collapsed to just £19m, from £307m last year. Analysts expect it could make a loss of up to £100m this year.

It is in good company. In Germany, first half pre-tax profits at Krupp Stahl fell 69 per cent, while at Hoesch the fall was 65 per cent. Usinor Sacilor of France warned that there were signs that the second half of its financial year would be worse than the first when pre-tax profits fell 72 per cent.

On top of slow growth within the west European market, producers face the threat of cheap imports from eastern Europe and tighter export markets elsewhere in the world.

With east European demand falling, about 40m tonnes of steel could be searching for a home at very low prices. In September, a tonne of sections for the construction industry could be bought in Romania for 30,000 lei ($162).

The message is that further restructuring is needed, not just within national industries but internationally, across borders. The steel industry is remarkably fragmented by comparison with other European industries, which are relatively capital-intensive. Four producers in the bulk chemical industry account for 80 per cent of output, the same as the oil industry. In contrast, it takes 10 producers to make up 80 per cent of western Europe's steel output.

Further cross-border consolidation will be needed to put the industry on a firmer footing. This will pose tricky political questions for the EC. If it does not sanction mergers to create larger European steel groups, then it is likely that the steel market will remain unstable. That in turn will raise the prospect of the public-sector producers being given covert subsidies.

Another big obstacle to international restructuring is the German industry, which accounts for a third of European output. German producers have been notoriously unwilling to talk to other European groups about mergers. However, that may be changing, according to British steel executives, who have recently held talks with German groups.

Steel executives say there is already a single market in steel. Continental producers are used to having at least 40 per cent of their domestic market taken by other European producers. Steel prices in most west European markets converge.

The future of the industry will turn upon the inter-action of politics and markets, whether national government and the EC act to create an open competitive market, or whether they continue to intervene, however covertly, to keep the industry's historic structure intact.

Charles Leadbeater

Pharmaceuticals

Knot of national regulations

FEW SECTORS face more upheaval from the creation of the single European market than the pharmaceuticals industry. The existing trade barriers within the EC are Gordian in their complexity – a knot of differing national regulations governing the safety, quality and efficacy of drugs, as well as their price.

The process of harmonising those regulations is a mammoth task. Prices vary considerably, and free trade is almost non-existent. The challenge is daunting even for the most convinced free-marketeer.

Even so, the EC has tabled wide-ranging and far-reaching proposals. These include changes in patent protection, pharmaceutical advertising, the packaging and labelling of drugs, and the standards governing the regulation of drugs.

The proposals are not uncontroversial. Member states, as well as the industry, are divided among themselves over the proposals.

At stake is the success of one of Europe's most lucrative industries. Six of the world's eight largest pharmaceutical companies are based in the UK or on the Continent. The industry, with a turnover of more than £28bn, is a substantial earner of hard currency.

Some of Europe's pharmaceuticals companies, such as Glaxo, Hoechst, Bayer, Ciba-Geigy and SmithKline Beecham, are giants. Fiddling with one of Europe's few industrial success stories is not done lightly.

Part of the problem is that at least part of the success of the European companies is attributable to the protection offered to local manufacturers. Such protectionism is often rampant in member states.

In the UK and Germany, where drug prices are high, for example, health agencies have supported indigenous manufacturers through a variety of measures. In particular, high prices are used to support ambitious research and development projects.

In addition, some governments have also offered attractive prices for non-indigenous companies that have decided to set up manufacturing operations in their countries. Analysts estimate there is as much as 50 per cent over-capacity within the EC at present.

Other states, such as Greece and Portugal, have little interest in supporting local manufacturers, but are more concerned about the scale of their pharmaceuticals bill. These countries have tended to keep down their prices.

Not surprisingly, the discrepancies in pricing are at times enormous. A recent report by the British-based National Consumer Council suggested that prices in Greece, Italy, Portugal and Spain are between 60 and 65 per cent of those of the UK. In contrast, those in Denmark, the Netherlands and former West Germany are between 35 and 50 per cent more expensive than in Britain. The level of parallel importing from low-priced countries to higher-priced countries can be considerable.

Measures to harmonise pricing are likely to create all sorts of adjustments from the pharmaceuticals suppliers. The fears of the large manufacturers is that prices will fall to the lowest common denominator – a measure that might well benefit government expenditure, but which would do little for European research and development.

They also fear that it could become increasingly difficult to compete with US manufacturers which would continue to benefit from higher prices in their domestic market.

The most immediate measure that is to be decided is the issue of patent protection. On December 19, internal market ministers will be meeting to discuss the extention of patent lives within the EC. The measure being discussed involves the creation of a supplementary Protection Certificate, which would extend patent life for 10 years.

The effect of such measures on the market for generic, non-patented, products could be significant. The European Generics Association argues that it could artificially raise the price of prescribing drugs, hitting the pockets of the man in the street, patients, health services and health-care insurers.

Dr Rainer Dittman, the association's chairman, describes the proposed regulation as a "blank cheque" for the manufacturers of branded products. He says that, if generics were substituted for branded products at the same level as the US, there would be immediate savings of as much as Ecu8bn a year.

With so much money at stake, any changes introduced from Brussels are likely to be opposed by one section or another of the pharmaceuticals communities. The path to the single market will not be easy.

Paul Abrahams

Profile: Rotork

Keeping up standards

THE RESPONSE of many UK engineering companies to the question "What will 1992 mean for you?" is a rather defensive: "Well, of course, Europe has always been very important for us." But not everyone can say that with the same conviction as Mr Tom Eassie.

He is chief executive of Bath-based Rotork, the leading international supplier of products, systems and services for the motorisation of industrial valves. The company's central product is the electrically-operated actuator to control valves, used chiefly in the hydrocarbon, water treatment and power generation industries.

Mr Eassie points out that there are some aspects of the actuator business where the single market is no longer an issue. While many industries still have to grapple with national differences in technical standards and certification issues, common standards have already been introduced on the fittings linking actuators to valves, and on selling for hazardous locations.

Similarly, there are broad global technology trends that are as important for Rotork as any single-market-related legislation. Customers, for example, are increasingly demanding actuators such as Rotork's with sophisticated controls to allow operation from a central location.

Tighter environmental legislation, much of it emanating from California, is a further positive factor for Rotork, and of considerable importance for an environmental analysis subsidiary that is still in its infancy. Some UK environmental standards are 15 years behind their German counterparts, says Mr Eassie, explaining why non-UK sales growth will be so important.

Rotork was export-oriented virtually from its foundation in 1957, due partly to the conservatism of UK valve-makers unused to actuators as an alternative to manual control.

The company set up a French sales office in 1960, and subsequently expanded its presence in Europe and elsewhere through licensing agreements.

Apart from a Japanese licensing agreement, these have now been terminated in favour of the company's own salesforces, recognising the complexity of a selling process involving the valvemaker, the end-user and, frequently, engineering consultants and contractors.

But pre-1992 selling has not been plain sailing for Rotork. In Germany, for example, domestic competitors control a market which prefers cheaper actuators, and treats the product as a commodity.

And in the power-generating equipment market in particular, buying practices have traditionally been intensely nationalistic. Mr Eassie says that Electricité de France (EdF), the big utility, has never bought a Rotork actuator.

It is in this area that he hopes the EC's new public procurement rules – an integral part of the 1992 programme – may have an impact, obliging companies which hitherto had only been buying parts from local suppliers to widen their supply net. Mr Eassie concedes that this may take a while, but he believes Rotork could be well placed as younger engineers in the power industry, more willing to accept microtechnology, become more influential.

The German power market may still be difficult for Rotork, because of the buying preferences of power-engineering groups such as Asea Brown Boveri or Siemens, Mr Eassie suggests. However, he points out that the power market as a whole is a relatively declining business for Rotork, because valves are not used as much in modern gas turbine power plants.

In the hydrocarbon industry, where Rotork actuators are sold mainly at the downstream end, buying practices are very different, and already pan-European. But there has been an indirect effect of the single market changes in Spain. Here, Rotork has been working flat out over the past two years as Spanish industry – and particularly the oil sector – has raced to catch up with the rest of the EC.

Rotork is expanding its on-the-ground presence in Europe, having opened a Dutch office earlier this year, and further development of sales networks is likely as the company moves to fill gaps in its coverage.

Another area where single market reforms might be thought to have an affect is in Rotork's own purchasing arrangements. Alone among the leading players in a fragmented industry, it buys all the parts for its actuators, concentrating on designing, assembly and selling.

There are 1,000 parts in an actuator, and Rotork has hundreds of suppliers. The ideal supplier, says Mr Eassie, is situated within 50 miles of Bath and heavily dependent on Rotork, giving ease of communication and keen prices.

But Rotork is sourcing some motors, gears and castings from Europe, and purchasing policy is already "sort of pan-European," says Mr Eassie.

Andrew Baxter

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